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1. SHORT STUDIES IN ECONOMIC SUBJECTS

SHORT STUDIES IN
ECONOMIC SUBJECTS



J. H. LEVY.



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THE PERSONAL RIGHTS SERIES.

Edited by J. H. LEVY.

No. I.

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IN
ECONOMIC SUBJECTS.

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BY J. H. LEVY.



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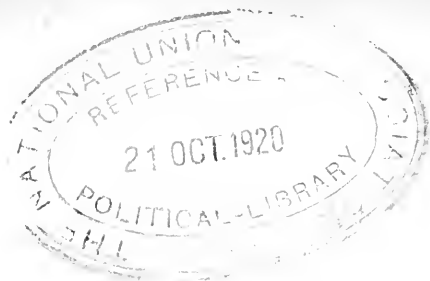
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INTRODUCTION

TO THE

PERSONAL RIGHTS SERIES.

IN these days, when politicians are promising so many benefits from the extended action of the State, when the spheres of the Central and Local Governments, and their relations to one another, are so ill-defined, when Municipalities threaten to usurp the whole field of industrial enterprise, and when many regard even the science of Political Economy as out of date, the Committee of the Personal Rights Association have thought it well to commence the issue of a series of concise and cheap volumes dealing with the most urgent problems in Economics, Ethics, and Politics. Into the controversies of the rival political parties in the State it is not proposed to enter; but it is hoped that principles will be laid down and facts established

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which will be recognised as important by all lovers of justice and truth, under whatever party banner they may range themselves.

Political power, in this country, was formerly possessed, almost exclusively, by the aristocracy. In 1832 it passed, to a large extent, into the hands of the middle classes, to whom were joined, in 1867, the wage-earning men of the towns, and, in 1884, those of the country districts also. The aristocracy, being in a position of unchecked power, naturally took care to feather their own nests, and, aided by the State Church, were only too ready to repress discussion and political agitation. There was a tendency to regard anything which familiarised men's minds with any other than the then existent state of things as seditious, if not blasphemous.

When the capitalist classes became possessed of parliamentary powers in 1832, they were generally in favour of the laws, then in force, against free combination on the part of working men ; and it was not till the political enfranchisement of large numbers of the manual labour classes had made their political power seriously felt that Trades Unions were legalised. Moreover, the em-

ployer class were virtually responsible for the passing of Factory Acts—involving large powers of State inspection and interference—by their neglect to apply the proper remedies to the cruelty and oppression which had grown up in the factory system.

Eighteen years have elapsed since the agricultural labourers were enfranchised. No class is now entirely shut out from representation in Parliament—save women. “All sorts and conditions of men” have had the matter in their hands. What have they done with it? To give but a single instance, the Established Church is not only still established, but the course of legislation on the education question has enormously strengthened it. In a matter confessed to be of vital importance to the future of the nation, monopoly, with all its paralysing influence, reigns triumphant. No one would dare to enforce attendance at the State Church. But, at the State School, not only is attendance enforced, but parents are compelled themselves to be the agents of it, even though the only available school is one in which their children will be brought under influences which they regard with detestation.

If this is how matters have gone in the past what hope have we in the future? Large numbers of the wage-earning classes seem to be in favour of sending to the House of Commons special representatives pledged to consider and favour the interests of their own class, apart from those of the community generally. Suppose—what at the present moment seems unlikely, but in the future might be possible—that working men, who are a majority of the voters, were persuaded by their leaders to send to Parliament a majority of members thus to represent only their own class. We might, and in all probability should, find ourselves again involved in all the old evils of class legislation—evils many of which still exist—instead of pursuing the true ideal of legislation, so as to procure the largest possible freedom for each member of the community.

With this possibility in sight, and recognising that the future of our country rests in the hands of the wage-earning men who constitute a majority of the voters, it is surely important that those who look to Parliament to redress the admitted evils of our

present social system, should clearly realise what Parliament can do and what lies beyond its power, and should be done—can only be done—by the people themselves in free and voluntary combination. It is with the object of showing the limits of State interference, which always involves compulsion of the individual, and of counteracting the excessive faith which so many now have in Salvation by the State—a number of ordinary persons elected to office by the majority—that the Personal Rights Association have thought it well to issue this series of volumes. But it is hoped that, in the course of this necessary negative work, it will be shown in what direction true political salvation lies.

J. P. THOMASSON,
President of the Personal Rights Association.

Woodside, Bolton, Lancs.,
28th May, 1903.

PREFATORY NOTE.

THIS little book is intended as an introduction to the study of Economics. It is hoped that it will give some indication of what that science is, and induce some taste for it. The opening lecture on "Wealth-Knowledge," being an endeavour to influence conduct, necessarily makes appeal to ethical considerations. But, apart from this, and when once embarked on the work of Economics, I have endeavoured rigidly to maintain the scientific and economic standpoint, and therefore to shut out all moral and political considerations. Economists will find at least three points of interest—in my polemic against John Stuart Mill as to the nature of Laws of Distribution, in my doctrine of the Evanescence of Interest, and in my contention that Economics is not a Social Science. The detailed proof of this last most important allegation I have been obliged to leave for a further volume.

J. H. LEVY.

Personal Rights Association,
32, Charing Cross, S.W.

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WEALTH-KNOWLEDGE:

A PLEA FOR THE STUDY OF ECONOMICS.

AN accusation is frequently levelled against the science of man, and especially against the branch of it to which I am about to direct your attention, that it is eminently unpractical—a sort of thing which may do very well for Jupiter or Saturn, or some other benighted planet remote from the centre of light, but altogether unsuited to that everyday world of ours in which “sweaters” and Socialists, caucuses and company promoters, trades-unions and “tied houses,” Fair Traders and philanthropists live, move, and have their being. “The questions,” it is said, “which occupy the time and attention of these ‘mere theorists’ have no bearing on the great interests of mankind. Humanity goes on its way, undisturbed by the speculations of men who always fancy they are wiser than their fellows; and, be the reply to the ethereal problems about which they are so zealous yea or nay, humanity goes on its way, no more affected by

the result of their deliberations than by the erratic course of some distant comet." "These wiseacres too," it is urged, "are a constant source of annoyance to the rest of mankind. They are always finding out that something is wrong. Nothing is sacred to these reckless innovators. If there is any fact about which common-sense people have made up their minds, these pundits are sure to dispute it. They are always unsettling our convictions, and making us feel uncomfortable. Even if we go so far as to confess that we are uneasy, and ask them what we are to do, we are told that the pursuit of truth is not an easy matter—that if we accept their conclusions, we shall be almost as badly off as ever, unless we know the *reasons* for accepting them. Instead of giving our brains plenty of rest, as common-sense people do, and taking for granted what everybody holds to be true, we are to be perpetually bothered with weighing evidence, and sifting arguments, and observing events, and doing all sorts of troublesome and unprofitable things. The fact is that these philosophers, from Thales to Herbert Spencer, are a nuisance."

I do not believe this is an exaggerated statement of the feelings of the mass of humanity towards the pioneers of human knowledge. They are nearly always unpopular. Philosophy is the great solvent of superstition and custom-entrenched error. Respectable people of the ordinary, quiet, jog-trot type appreciate scholars, but are frightened of thinkers; business people look upon them as

dreamers who give their attention to matters which have no appreciable effect on the next half-year's dividend; to mere pleasure-seekers they are caviare on account of their seriousness; and to shallow people they are a riddle without intelligible solution. But it is to these men, more than to any others, that mankind owes such progress as it has made. As Condorcet well remarks: "The sailor who is preserved from shipwreck by the exact observation of the longitude, owes his life to a theory conceived two thousand years before, by men of genius who had in view simply geometrical speculations." Those epochs in which philosophic thought was more than usually active, are the oases in the desert of history. But the names which render those periods illustrious are those of men who were disliked and persecuted by their contemporaries. And, though we abjure the sins of our ancestors—an inexpensive kind of moral investment which commends itself to those who are anxious to buy their virtues, as well as their other luxuries, in the cheapest market—it is, taking the state of Europe generally into account, relatively as risky now as it was two thousand years ago, to attempt to be wiser or better than our contemporaries.

Human knowledge may be regarded as consisting of four grand sections. The first of these is knowledge mathematical, or the facts and laws of quantity. The second is knowledge physical, or the facts and laws of the material universe.

The third is knowledge psychical, or the facts and laws of consciousness. And the fourth is knowledge anthropological, or the facts and laws of the relations of human beings (1) with the surrounding world, and (2) with one another.* Now philosophy is the vanguard of science. It is always striving to summarise and epitomise human knowledge, by carrying farther and farther the process of generalisation. It always occupies the most disputed ground, which has not yet been brought under the dominion of the intellect. In early times, the philosophical pioneers of modern science were very much engaged with what would now be regarded as mathematical or physical speculations. As time went on, the ground they won was taken possession of by the main body of the army of science, and the philosophic van concentrated its attack on the domains of Mind and Man. The world of Mind is, I think I may say, passing slowly under the sceptre of science; and, with regard to the province of Man, notwithstanding enormous difficulties, much has been done.

But, unfortunately, not only do most persons, even of what are called the educated classes, resent what they consider the intrusion of the idea of natural law into the sphere of human action—when they realise what it means, which they fre-

* Contrary to the prevailing doctrine among economists, I hold that economics belongs to the first of these sections, and, consequently, that it is *not* a social science. This point will be discussed in a later volume, under the title of "The Economics of Robinson Crusoe."

quently do not—but they know little or nothing of what has been ascertained in the human sciences. Familiarity with terms which are used to express moral or economic relations breeds in them the illusion that they have intuitive knowledge sufficient to decide the knottiest questions of ethics or economics. Molière's *Bourgeois Gentilhomme* had been unwittingly talking prose for forty years. Most persons speak economics to the end of their lives without being aware of it. They would not undertake to cut off a man's leg without any acquaintance with anatomy and surgery, or to predict the exact date of the next solar eclipse without some knowledge of mathematics and astronomy; but they are quite ready, without the slightest scientific preparation, to solve the most intricate problems of wages, currency, and international trade—problems which are far more difficult than the prediction of an eclipse, and error in the solution of which carries with it far more terrible consequences, in human misery, than any mistake which can be made in the amputation of a limb. Now it is this unconscious ignorance which is the great barrier to progress. The whole life of the most famous of the Greek philosophers was devoted to breaking down this barrier. The incessant aim of the Socratic dialectic was to unveil the ignorance of those who deceived themselves by a false persuasion of knowledge.

The Science of Wealth, or Economics, as it is now called, has shared the fate of the other anthro-

pological sciences with regard to this double ignorance—the ignorance that one is ignorant. The desire for wealth—for coveted material objects which cannot be obtained without sacrifice of some sort—is universal amongst mankind. It has necessarily been made one of the chief objects of human attainment; for food, clothing, habitations and other of the material conditions of life and comfort are not supplied spontaneously by Nature. If they were so supplied at an early stage of the existence of mankind, our numbers have long outstripped this gratuitous provision. Given this fact, and the low state of morality which has hitherto obtained among mankind, and it is not surprising to find that the pursuit of wealth has been characterised by a reckless rapacity; and, to those who have made a study of politics, it will cause no astonishment to find that governments—which are, after all, made up of human beings, frequently demoralised by power over others—have been by no means exempt from this failing, though it must be admitted that they have carried it on with that respectability which attaches to wholesale transactions, and have punished the retailers in the same trade with at least due severity. If small shopkeepers have been found, with plebeian improbity, to adulterate a few pounds of pepper, monarchs have adulterated the coinage of a kingdom; and even republics have manifested a yearning for “soft money.” But greedy people are usually shortsighted; and very often, like the

dog in the fable, let fall the substance in order to catch at a shadow. This actually occurred in the present instance, through a misconception of the nature of wealth—a misconception which dominated the whole of Europe up to a recent period, and produced the most serious moral and political effects.

The early employment of the precious metals as instruments of exchange and measures of value, gave rise to a series of associations which induced the belief that money, or the gold and silver of which it was made, alone constituted riches, or at least were wealth in an especial and paramount sense. All wealth being expressed in money, all income and expenditure being reckoned as the receipt or disbursement of money, all goods which a person might possess being entered in the account, not in their own character, but as so much money—money seemed to our ancestors the be-all and end-all of riches. These associations having once become formed, were soon embedded in the language of every-day life; and terms and phrases so created, tended still further to strengthen the impression to which they owed their origin.

This notion having once been adopted, it was carried—not, perhaps to its logical conclusion; any attempt to do that would have led either to an immediate recognition of its absurdity, or to its speedy refutation by what has been called the logic of events. But it was applied in a way dear to the so-called “practical man” of all ages—so as to

attain the maximum of mischief possible without discrediting a vicious principle. It is evident that, if the precious metals alone are wealth, a nation which has no mines of gold or silver, can only become rich by importing them from another country; and the nation which exports bullion becomes poorer to the amount of that bullion, notwithstanding that it may have obtained in exchange for it ever so large a quantity of goods useful to its people. This extraordinary idea permeated the whole of society, and gave rise to laws and customs which, viewed by the light of modern economic science, are so absurd that we would have some difficulty in conceiving the state of mind to which they appeared otherwise, if the Bimetallists did not furnish us occasionally with some survivals—the only service to the cause of economics with which I can credit them.

A very quaint little book, published in the year 1581, and as its title-page informs us, "imprinted at London in Fleet Street, near unto St. Dunstan's Church," contains a classification of artisans which gives such a complete insight into the mode of regarding wealth in those days, that I cannot do better than quote it. The writer—a gentleman of the Court of Queen Elizabeth—observes: "And now because we are entered into communication of Artificers, I will make this division of them. Some of them but convey money out of the Country, some other that which they get they do expend again in the Country. Of the first class I reckon

all Mercers, Grocers, Vintners, Haberdashers, Milliners, and such as do sell wares growing beyond the sea, and do fetch out our treasure for the same, which kind of Artificers as I reckon them tolerable yet not so necessary in a commonweal but they might be best spared of all other. Yet if we had not other Artificers to bring in as much treasure as they do carry forth we should be great losers by them. Of the second sort be these—Shoemakers, Tailors, Carpenters, Masons, Tylers, Butchers, Brewers, Bakers, and Victuallers of all sorts, which like as they get their living in the Country, so they spend it: but they bring no treasure to us. Therefore we must cherish well the third sort. And those be Clothiers, Tanners, Cappers, and Worsted Makers only, that I know (which by their mysteries and faculties) do bring in any treasure.”

The author, you will see, divides people engaged in business into three classes—those who import goods for home consumption, those who make goods for home consumption, and those who manufacture goods for foreign consumption. The first he considers we lose by, as “they convey money out of the country”; the second he looks upon as harmless, but no good, as they neither bring into the country any money nor take any out; the third alone, who give their goods in exchange for foreign gold, does he reckon as those whom we ought to cherish as augmenters of the national wealth.

One of the most conspicuous consequences of

this theory—none the less a theory because the theorists would, no doubt, have called themselves “practical men” and abjured all theory—is to be found in the laws which were made and enforced by various nations to prevent the export of the precious metals. Cicero tells us that during the time that he was Consul, the Roman Senate repeatedly declared in the most solemn manner against the exportation of gold. The nations of modern Europe have vied with one another in this respect; and, in our own country, the export of bullion was prohibited for four hundred years. The preamble to the 5 Rich. II., cap. 2, runs thus: “For the great mischief which this realm suffereth and long hath done, for that gold and silver are carried out of the realm, so that in effect there is none thereof left, which thing, if it longer should be suffered, would shortly be the destruction of the same realm, which God prohibit”; and it is remarkable that when, after repeated re-enactments, this prohibition of the export of bullion was repealed, it was done because, in the words of the statute, “it is found by experience that the species of money and bullion are carried in greatest abundance as to a common market, to such places as give free liberty of exporting the same.” After four centuries of prohibition, the export of gold and silver was permitted; and for what purpose? For the very purpose that the prohibition itself was intended to effect—“to keep in and increase the current coins of this kingdom.”

Perhaps the most notable example of the fatal effects of this doctrine is afforded by Spain. It would be difficult to give an adequate idea of the prospects of that country in the sixteenth century. "So late as 1478," says Buckle, "Spain was still broken up into independent and often hostile states; Granada was possessed by the Moham-medans; the throne of Castile was occupied by one prince, the throne of Aragon by another. Before the year 1590, not only were these fragments firmly consolidated into one Kingdom, but acquisitions were made abroad so rapidly as to endanger the independence of Europe. The history of Spain, during this period, is the history of one long and uninterrupted success. That country, recently torn by civil wars, and distracted by hostile creeds, was able in three generations to annex to her territory the whole of Portugal, Navarre, and Rousillon. By diplomacy or force of arms, she acquired Artois, and Franche Comté and the Netherlands, also the Milanese, Naples, Sicily, Sardinia, the Balearic Islands, and the Canaries. One of her kings was the Emperor of Germany; while his son influenced the councils of England, whose queen he married. The Turkish power, then one of the most formidable in the world, was broken and beaten back on every side. The French monarchy was humbled. French armies were constantly worsted; Paris was once in imminent jeopardy; and a King of France, after being defeated on the field, was taken captive, and led prisoner to Madrid. Out of Europe, the

deeds of Spain were equally wonderful. In America the Spaniards became possessed of territories which covered sixty degrees of latitude, and included both the tropics. Besides Mexico, Central America, Venezuela, New Granada, Peru, and Chili, they conquered Cuba, San Domingo, and other islands. In Africa they obtained Ceuta, Melilla, Oran, Bougiah, and Tunis, and overawed the whole Coast of Barbary. In Asia they had settlements on each side of the Deccan; they held part of Malacca; and they established themselves in the spice islands. Finally, by the conquest of the noble Archipelago of the Philippines, they connected their most distant acquisitions, and secured a communication between every part of that enormous empire which girdled the world."

The same historian, speaking of the condition of Spain at the end of the seventeenth century, tells us that "the most powerful monarchy existing in the world was depressed to the lowest point of debasement, was insulted with impunity by foreign nations, was reduced more than once to bankruptcy, was stripped of her fairest possessions, was held up to public opprobrium, was made a theme on which schoolboys and moralists loved to declaim respecting the uncertainty of human affairs, and at length was exposed to the bitter humiliation of seeing her territories mapped out and divided, by a treaty in which she took no share, but the provisions of which she was unable to resent."

We read history in vain if we merely acquaint our-

selves with events such as these and do not trace their causes. Those causes, though not entirely economic, were in a great measure so. Charles the Fifth was thoroughly saturated with the notion of the supreme importance of the precious metals. Mexico and Peru having fallen into his hands, with their mines of gold and silver, he did all that an unscrupulous despot could do, to enrich Spain at their expense. Never were laws made with a greater disregard of the first principles of justice and right—never did retribution more speedily or more crushingly overwhelm the oppressors. The Americans were forbidden to exchange their gold and silver for the commodities of any other nation than Spain. They were not allowed to build ships, to establish manufactures, to grow flax or hemp, or to cultivate the vine. They were not even permitted to educate their children otherwise than in Spain. Everything that a remorseless ingenuity could suggest was done to drain the new world of its gold and silver, and pour them into Spain. At the same time the export of the precious metals from the latter country was prohibited, under the penalty of death.

Now money has certain functions to perform, which, though important, are strictly limited. It is primarily an instrument of exchange, secondarily a measure of value; and both these functions are seriously impaired by any rapid increase or decrease of its quantity. Indeed, it is because the quantity of gold in hand at any one time is very great in

comparison with the yearly output that it has that comparative stability of value which constitutes its supreme fitness for a money material. Each of us becomes better off with the increase of his money, because his command of purchasable commodities and services is thus increased ; but to suppose that a whole community would be made more prosperous by an augmentation of its exchange implements, is to fall into what logicians call a fallacy of composition.

These considerations will help you, to understand how the economic policy of Charles the Fifth, instead of tending to enrich the country which was so unfortunate as to have him for a ruler, produced the most deleterious effects. Persons whose incomes were fixed either by law or custom, found their means very much straitened, without being able to account for it. Trade became at first embarrassed, and afterwards paralysed, by the uncertainty in which it was enveloped. Industry, which will never thrive unless those who work are tolerably sure to enjoy the fruits of their labour, languished. Anti-Semitism was carried to its logical conclusion, by the driving out of both branches of the Semitic family—Moors and Jews, who constituted most valuable elements of the population ; and the revival of slavery tended still further to discredit industrialism, by affixing a stigma to labour, as the portion of a degraded and inferior race.

These influences gradually told on the Spanish

character; and produced that mixture of laziness and pride which is characteristic of a society having slavery for its basis. Manufactures were neglected, agriculture decayed, and the whole energies of the Spanish people were turned to the plunder of the unfortunate Americans. These were at length goaded into rebellion; and, after a sanguinary struggle, succeeded in throwing off the yoke of their oppressors.

I can profess no commiseration for the Spanish people in the crushing result of this attempt to build up their prosperity on the plunder and debasement of others; but I am concerned here rather with their economic blunder than their ethical misconduct. And the sort of blundering of which I am speaking was not confined to them. Our own country, which owes its eminence, among other causes, to the fact of its having been less an object of paternal care on the part of its Government than other nations, has had its share of this kind of legislation. A few centuries ago, our rulers used to think that their powers were like those of an elephant's trunk, which can tear up a tree or pick up a needle; and although this error—as I hold it to be—is one of politics and not of economics, still there can be no doubt that it was sustained, as it is at the present day, by economic superstitions. Nothing was too large, and nothing too small for the statesmen of the pre-economic era. They took divine worship under their care, and told the people what price they should pay for their

candles.* A statute of the reign of Edward the Third, entitled, An Act concerning Diet and Apparel,† commences by confirming the Great Charter extorted from King John, and the supplementary charters granted by subsequent monarchs ; and immediately proceeds, from the settlement of these matters of the highest constitutional importance, to the regulation of the price of geese, pullets, hens, and capons : the respect due to age being shown by making fourpence each the legal charge for old capons, while the price fixed for their juniors was a penny lower.

From poultry to plums is a comparatively easy leap. The next ordinance is one concerning grocers ; and its preamble reads like a quotation from the prospectus of the Licensed Victuallers' Tea Association :—" For the great Mischiefs which have happened as well to the King, as to the Great Men and Commons, of that that the Merchants called Grocers do ingross all Manner of Merchandise vendible." It is then enacted that traders shall deal in but one commodity ; and they are ordered, under severe penalties, to dispose of all their stock, except the one kind of goods in which they elect to deal in future, before a certain fixed date. Manufacturers, too, are to make but one sort of article. The silversmith is prohibited from gilding his own wares, and the gilder from making them. The Act then goes on to prescribe the clothing of all the various classes in the community : " Grooms,

* 11 Henry VI, Cap. 12.

† 37 Edw. III., Cap. 3.

as well as Servants of Lords, as they of Mysteries and Artificers," . . . "People of Handicraft and Yeomen" . . . "Esquires and all Manner of Gentlemen" . . . "Merchants, Citizens, and Burghesses," . . . "Knights" . . . "Clerks, which have degree in any Church, Cathedral, Collegial or School, or Clerk of the King," . . . "their Wives, Daughters, and Children,"—all are informed by this wonderfully comprehensive statute how they are to dress according to "their Estate and Degree." The latter portion of this Act is so curious that I give it to you verbatim: "That Carters, Ploughmen, Drivers of the Plough, Oxherds, Cowherds, Shepherds, Swineherds, Dairymen, and all other Keepers of Beasts, Threshers of Corn, and all Manner of People of the Estate of a Groom attending to Husbandry, and all other People that have not Forty Shillings of Goods nor of Chattels, shall not take nor wear no Manner of Cloth, but Blanket and Russet of Twelve-pence the yard; and shall wear the Girdles of Linen according to their Estate; and that they come to eat and drink in the Manner as pertaineth to them and not excessively." It seems to have been an object of great care on the part of our rulers of former times, that the common people should be free from the sin of gluttony.

This is only a sample of the economic legislation of that time. One statute of Edward the Fourth regulates the length of boots, and enters so minutely into the dress to be worn by our countrymen that it

will scarcely bear quotation. A statute of Henry the Eighth's reign first prohibits the importation of foreign caps, and then fixes the price of English ones, and the way in which they are to be made.* One law gives minute directions for the packing of fish,† another for the currying of leather.‡ One of the first Acts of Queen Mary's reign prohibited the wearing of silk nightcaps by men not having £200 in goods or £20 in annual income; and an Act of the previous reign regulated the way in which beds and bolsters should be stuffed.§ The first year of the rule of the monarch who disported himself on the Field of the Cloth of Gold was signalised by an Act whose preamble declares that "the great and costly array and apparel used within this realm, contrary to good statutes thereof made, hath been the occasion of great impoverishing of divers of the king's subjects."|| This law seems to have aroused the indignation of Adam Smith, who says: "Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct. The whole, or almost the whole public revenue is, in most countries, employed in maintaining unproductive hands. Such are the people who compose a numerous and splendid court, a great ecclesiastical establishment, great fleets and armies, who in time of peace produce nothing, and in time of war acquire nothing

* 3 Henry VIII., Cap. 15.

† 5 Eliz., Cap. 8.

‡ 22 Edw. IV., Cap. 2.

§ 5 & 6 Edw. VI., Cap. 23.

|| 1 Henry VIII., Cap. 14.

which can compensate the expense of maintaining them, even while the war lasts. Such people, as they themselves produce nothing, are all maintained by the produce of other men's labour. . . . It is the highest impertinence and presumption . . . in kings and ministers to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will."*

But the attention of the Government was not only directed to the expenditure and mode of consumption of the people. Their income and the way in which it was earned were equally objects of solicitude. Laws regulating wages cumber our statute books. On one occasion, soon after the battle of Crecy, when a plague, by diminishing the number of labourers, would naturally have raised the rate of wages, a law was passed fixing it at what it had been previous to the outbreak of the pestilence, and enforcing labour at this price by the penalty of forty days' imprisonment for the first offence, the punishment being doubled at every subsequent breach of the law. The labourers were not even allowed to change their place of

* *Wealth of Nations*, Book II., Chap 3.

abode, and seek employment elsewhere. From this time, legal enactments determining the hire of workmen continually occupied the attention of our legislators. More than three centuries and a half had elapsed when we find Parliament giving its sanction to an "Act for Regulating Journeymen Tailors."* All attempts on their part to get more wages or reduce the hours of their labour were declared to be illegal; and any one of them convicted of these heinous crimes was sent to hard labour in the house of correction for two calendar months. The Act then defines their time for work, and remuneration. They were to be paid *not more* than two shillings per day during the spring, and one shilling and eightpence per day during the remaining nine months of the year; and they were to work from six o'clock in the morning till eight at night. Employers were prohibited under a penalty from giving better terms than those prescribed.

The legal status of our working classes while they were so fortunate as to get remunerative work to do used to be terribly unjust. How the law dealt with them when they could not obtain a livelihood would form ample material for a lecture in itself. They were alternately treated with a blind ferocity of which it almost makes us shudder to think, and an indulgence still more cruel in its results; and we do not seem to be at an end of these oscillations.

* 7 Geo. I., Cap. 13.

Before the accession of the Tudors, pauperism, as an institution, was unknown to this country. The land was held by a large number of small proprietors, who cultivated their own farms and lived in a state of much independence and comfort. The battle of Barnet closed the long struggle euphemistically called the Wars of the Roses; and the rival factions, thus unfortunately relieved from the congenial and comparatively innocuous exercise of cutting each other's throats and beating out each other's brains, turned their predatory prowess to the driving of the peasantry of England off the land. I cannot stay to recount the economic history of that time, interesting as it is. After unceasing but unequal strife, which may be considered to have been decided when the two Kets were barbarously executed at Norwich in 1549, two modern institutions which are closely related were established—our English land system and our Poor Law.

For the first time in our history, dependent poverty was the unavoidable lot of large numbers of the people. One Act after another was passed to put down pauperism, but to no purpose. The following is an abridgment of one enacted in the first year of the reign of King Edward the Sixth: "Forasmuch as Idleness and Vagabondry is the mother and roote of all thefts, Robberies, and all evil acts and other mischief. Be it therefore enacted that whosoever, man or woman, being not Lame, Impotent, or so aged or diseased with sickness that

he or she cannot work, shall either like a serving man wanting a master, or like a beggar Idly wander by the highway's side or in Streets, and so do continue for the space of three days ; And, if no man otherwise will take them, do not offer themselves to work for meat and drink ; or, after they be so taken to work for the space agreed betwixt them and their masters, do leave their work out of convenient time : That then every such person shall be taken for a Vagabond to two of the next Justices of the Peace, who shall immediately cause the said loiterer to be marked with a hot Iron in the breast the mark of V, and adjudge the same person to such presentor, to be his Slave for the space of two years, only giving the said Slave bread and water or small drink and refuse of meat, the said Slave to work by beating, chaining, or otherwise in work and labour how vile soever it be. And if any manner of Slave appointed run away, the same Justices shall cause such Slave to be marked on the forehead or the ball of the cheek with a hot Iron with the sign of an S, and shall adjudge the runaway to be the said Master's Slave for ever. And if such Slave shall the second time run away, That then every such running away to be adjudged felony, and such runaway to be taken as a felon, and condemned to suffer pains of death as other felons."*

While such was the mode of regulating home affairs in the "good old times," foreign trade was

* 1st Edwd. VI., Cap. 3.

subjected to such restrictions that if it had not been for smuggling, it would have been altogether extinguished. It can be easily understood that, when all the nations of Europe thought it their interest to export, and against their interest to import—and this notion is still very widely held—commerce between them must come to a deadlock.* How generally these views prevailed may be judged by the fact that Voltaire, whom no one will accuse of undue reverence for the past, lays it down as self-evident that one nation cannot gain by commerce save at the expense of another. Disputes and intrigues having for their object the imposition of the wares of one country upon another were common, and frequently gave rise to the most costly and ferocious struggles. The gold and silver with which nations could not be induced to part, for the most useful products of foreign industry, were freely lavished on cruel and exhausting wars, having for their object the increase of the wealth which they did more than anything else to destroy.

International trade being thus duly subjected to "law and order," wages fixed, manufactures regulated, the people informed what they were to buy and what they were to sell—their eating and drinking and clothing and sleeping being all taken care of with paternal solicitude, and—let me add—enforced with parental authority, it might be thought that the ordering of all these matters would have exhausted the wisdom and ingenuity of the practi-

* See Blanqui's *Histoire de l'Economie Politique*, Chap. XXVIII.

cal statesmen of those days. Such, however, was not the fact. Still one more regulation I have to mention, a theological prejudice this time adding its weight to the side of economic error.

It is one of the most elementary propositions of economic science that industry is limited by capital. Before any productive operations of more than a rudimentary kind can be taken in hand, a previously accumulated stock of the products of former industry is necessary. No manufactures can be started without materials and tools, and necessaries for the workmen. These materials and tools and necessaries are not the produce of the labour which they subserve, but that of former labour. Capital, you will therefore see, is indispensably necessary for the purposes of all production beyond the first rude beginning; and any increase of it is an additional facility for the increase of the material prosperity of the country. Now a great part of the accumulation of wealth that ordinarily goes on is effected by persons who have sometimes not the desire, and sometimes not the opportunity and ability, to engage in industrial and commercial pursuits. It will readily be seen that any system by which the use of the savings of these persons can be transferred to others whose sphere of industry is constrained by lack of capital, must be a great advantage to the community. But the savers are not likely, so long as they do not prefer deferred to present consumption, to part with their wealth without some advantage to themselves. The bor-

rowers, too, can very well afford to forego a part of the extra gains which otherwise they would never have made, in order to remunerate the lenders for their risk and waiting. This is the foundation of the system of credit which has grown to such gigantic proportions in modern times. Immense sums are now lent and borrowed daily, the rate of interest being determined by supply and demand, or—if you prefer that statement—by the utility of the last increment of the loan fund. If the demand for loans is in excess of the supply, the would-be borrowers will compete for them, and the rate of interest will be raised. If, on the other hand, the supply of loans is greater than the demand for them, the rate will be lowered by the competition of the would-be lenders. The rate always tends to that point at which the loan supply is equated to the demand, or to the point of “marginal utility.”

The principles which I have just mentioned were unknown a few centuries ago, and were not apprehended in their full force even by Adam Smith. They are unrecognised still by some persons; and, indeed, I may say that there is a distinct reaction against them in some academic and political circles. It is to Jeremy Bentham we owe the triumphant establishment of the defence of so-called usury; though, as Mr. Lecky has pointed out, “On the whole, there is not much in Bentham that was not anticipated by Turgot.”* The practice

* *History of Rationalism*, Vol. ii., p. 270.

of lending money at interest was condemned as a mortal sin by seventeen popes and twenty-eight councils of the church ; and this condemnation was not directed against those rates only which were considered high or extortionate, but against any consideration paid for the use of money. There was much discussion whether Jews should be permitted to lend at interest ; and the plea for exempting them from the general prohibition was that, as St. Thomas Aquinas said, " they were already so hopelessly damned that no crime could aggravate their condition."*

In truth, rulers who wished to profit by the usury they affected to condemn used the Jews as sponges to suck up wealth which they afterwards mercilessly squeezed from them. "The King of England was wont to draw a considerable Revenue from the Jews residing in this Realm. . . . He would tallage the whole Community or Body of them at Pleasure ; and make them answer the Tallages for one another. If they made any Default at the Atterminations or Days of Payment prefixed to them, they were charged with great Fines or Compositions for it. In Sum, the King seemed to be absolute Lord of their Estates and Effects, and of the Persons of them, their Wives and Children. 'Tis true he let them enjoy their Trade and bequests ; but they seemed to trade and acquire for his Profit as well as their own : for at one Time or other their Fortunes, or great part

* *Ibid.* p. 301.

of them, came into his Coffers. . . . By Traffic and taking of usuries and mortgages of the King's subjects, they became very wealthy both in Money and Land. But as they fleeced the subjects of the Realm, so the King fleeced them."*

The effect of the Usury Laws was to produce the very disease they were intended to cure. By restricting the number of lenders, they diminished the supply of loans, and thus raised the rate of interest. The law, again, having to be evaded, the lender had to be compensated for the extra risk involved in this, and to the stigma attaching to the transaction; and this further tended to raise the price of the loan. The borrower had the misfortune to be protected by both Church and State; and he fared as people generally do who depend on external and coercive agencies for that guidance and support which they can get, and can get only, by the cultivation of their own judgment and foresight, and the exertion of their own energies.

I have now given you as complete a picture of the state of the industrial world previous to the rise of economics as the time at my disposal will allow. We have reviewed, too, that vanity and presumption of governments which makes them, whatever may be their form, think they know every man's business better than he knows it himself, and are justified in forcing on him their conclusions. This system culminated, in France, in

* Madox's *History of the Exchequer*, p. 221.

the reign of Louis XIV. When, however, Colbert, the great minister of that king, asked a deputation of manufacturers what he could do to assist them, they gave him a reply which may be freely translated into English: "The best thing you can do for us is to mind your own business and leave us to take care of ours."

On the death of Louis XIV., a great revulsion took place in the sentiments of the French people towards their rulers. Their attention was drawn to the more Individualistic government of our own country; and the works of British authors were studied with great avidity. This cross-fertilisation of the French with the British intellect produced what was, perhaps, the greatest mental and moral revolution in modern history. It is the fashion now—especially among those who wish to emancipate themselves from the constraint of principle—to speak sneeringly of the eighteenth century. It would be more profitable to consider how much of the progress which has since been made has been due to the impetus given during that century; and how that impetus, which is now nearly spent, may be renewed.

But we are here concerned with only one phase of the thought of that time. It is to M. Quesnay, a physician of the court of Louis XV., that we owe the first systematic attempt to raise economics to the rank of a science. By directing the attention of the great intellects of his day to the one class of phenomena resulting from the interaction of man

with his environment, the discovery of the general truths of which was at once the most practicable and the most urgent, he conferred a benefit on humanity which it is difficult to over-estimate. His school, the so-called Physiocrats or *Economistes*, produced a great and lasting impression. It is not sufficiently recognised how much Adam Smith, in all probability, owed to them, and especially to the illustrious Turgot, whose great work was published five years before the *Wealth of Nations*. Du Pont de Nemours, one of the ablest of the Physiocrats, said of Smith's *chef-d'œuvre*: "All that there is of truth in that estimable but unreadable book, in two thick quarto volumes, is to be found in Turgot's *Reflections on the Production and Distribution of Wealth*; all that Adam Smith has added to this is lacking in precision and even in foundation."* This is an absurd exaggeration, as Du Pont afterwards recognised; but, without doubt, "the influence of Turgot and Quesnay had probably more to do with the opinions which were afterwards elaborated into a systematic form in the *Wealth of Nations*, than any of their other antecedents."† That Turgot also owed something to his conversations with Adam Smith is a matter of which there can be very little doubt. What it is necessary to insist on is that there is no room in science for patriotic bias; and that we should be constantly on our guard

* *Du Pont de Nemours et l'école physiocratique*, par G. Schelle, p. 159.

† *Life of Adam Smith*, by R. B. Haldane, M P., p. 32.

against the prepossessions towards which the barrier of our language disposes us.*

The most striking fault of the Physiocratic doctrine was the undue emphasis which it gave to land as a factor of production. As all articles of wealth are made of materials which are taken, directly or indirectly, from the earth, the Physiocrats inferred that land is *the* source of wealth. Of all persons who are engaged in industrial pursuits, agriculturists alone seemed to pay for use of natural agents; and Quesnay thought that this was a consequence of the superior productiveness of agriculture—that the cultivation of the land alone yields a surplus beyond the expenses of production. In his *Tableau Economique*, published in the year 1751, he divides society into three classes—agriculturists who live on the part of the produce of their labour constituting their wages, landed proprietors who live on the surplus produce of agriculture, and manufacturers who live on wages paid to them by the other two classes.

“The capital error of this system,” Adam Smith said, “seems to lie in its representing the class of artificers, manufacturers, and merchants as altoge-

* M. Cherbuliez, of Geneva, in his *Précis de la Science Economique*, speaks of “that English School to which the science is indebted for nearly all the important theorems with which it has been enriched since the commencement of the (19th) century;” and Wilhelm Roscher, in his *Geschichte der National-Oekonomie in Deutschland*, says:—“The unprejudiced historical comparison of all the chief politico-economical literatures appears to me to give as result that the English excels:” but, were they writing now, what would they say about the last quarter of the nineteenth century?

ther barren and unproductive." This was, no doubt, *a* capital error; but *the* capital error of the school was one which Smith shared; for he went on to say: "We should not call a marriage barren or unproductive, though it produced only a son and a daughter, to replace the father and mother, and though it did not increase the number of the human species, but only continued it as it was before. Farmers and country labourers, indeed, over and above the stock which maintains and employs them, reproduce annually a neat produce, a free rent to the landlord. As a marriage which affords three children is certainly more productive than one which affords only two, so the labour of farmers and country labourers is certainly more productive than that of merchants, artificers, and manufacturers."* This is a fallacy, consequent on a misinterpretation of the phenomenon of rent, adopted from the Physiocrats; for Smith's "neat produce" is only Quesnay's *produit net*.

Adam Smith was not infallible. The above was not his only mistake. But how much do we owe to his epoch-making work!† In it the emphasis was removed from land to labour, as "the ultimate price which is paid for every thing"—the main contribution that man can and must make towards

* *Wealth of Nations*, Book IV., Chap. IX.

† It is well to bear in mind that he was an ethicist as well as an economist; that he wrote the *Theory of the Moral Sentiments* as well as the *Wealth of Nations*; and that the latter is to a large extent ethical; but we are here concerned only with his economics.

the satisfaction of his material wants. Smith showed that wealth consists, not only of gold and silver, but of all things which man desires and cannot obtain without trouble in practically unlimited quantity. He explained the true functions of money as a standard of value and a medium of exchange. He unfolded the consequences of the division of labour, and erected on an indestructible logical foundation the doctrine of Free Trade.

Those who have not made a study of economics can have no adequate notion of the importance of the division of labour. Let us only think how much would be produced, if each of us had to supply his own wants—to grow his own food and cook it, to make his own clothes, build his own habitation, and do all else for himself that he might require. It would be utterly impossible under such conditions to rise above the savage state. Even among the rudest people, labour is divided to some extent. With us it is very minutely divided, and tends to be still more so ; and, as each fresh division tends to increase its productiveness—though in a diminishing ratio—we are much more successful in our industrial operations than people who work harder, but whose labour is less differentiated. But it is a condition of the division of labour, that there must be freedom of exchange. No man would confine his attention to the making of pins, for example, if he were not at liberty to exchange them for the articles of consumption that he desires. All limitations of the market limit the division of labour,

and thus tend to cripple the productive resources of mankind.

Eight years after the death of Adam Smith, there appeared another great work, which laid bare the ultimate cause of poverty. I refer to the *Essay on Population* of the Rev. T. R. Malthus. No man has been more persistently misrepresented than Malthus; and no man has had heaped on him more undeserved abuse. Even Thomas Hood goes out of his way—which assuredly was not that of economic reasoning—to write an *Ode to Mr. Malthus*, in which he says: “If I understand the thing you mean, We ought to *import* the *Cholera Morbus*.” Well, he did not understand. What Malthus said was, not that we should welcome disease, as a means of keeping down our numbers; but that, if we do not keep those numbers in check ourselves, by parental prudence, they *will* be kept in check by poverty and its consequences, disease and crime.

The detractors of Malthus forget that he did not *invent* the law of population: he only discovered it. That law was in operation ages before he was born. A dire disease afflicted society, but the deepest-lying source of it was unknown. He disclosed this fountain of distress, and turned upon it the light of science, with a view to discovering a remedy; and he is vilified as if he were the cause of the misery which he did his best to cure. As I have implied, the cause of this absurd injustice is a confusion between invention and discovery. Hargreaves invented the spinning-jenny; and if that

machine produced evil results, we might perhaps blame him for perverted ingenuity. There was no spinning-jenny before his time, and there never would have been one if it had not been invented. A man tortured with the thumb-screw might, with some show of reason, blame its inventor ; but what should we say of a person who, because a brick fell on his toe, cursed Sir Isaac Newton for finding out the law of gravitation? Should we not remind him that Newton's discovery did not *cause* the brick to fall, but merely explained *why* it fell? And so with the *Essay on Population*. The formulation of the Malthusian Law is not the source of the problem of poverty, but a most essential step towards its solution.

Malthus does not occupy a high place as a systematic economist ; indeed, he can scarcely be said to take such rank at all. His sole contribution to the building up of economic science was his renowned and immortal Essay. Outside of that, his merits as an economist are negative rather than positive. It would be better for his reputation had his *Principles of Political Economy* and his minor works never been written. He manifested that incapacity for deductive reasoning which was so conspicuous in Thorold Rogers and Cliffe Leslie.

In marked contrast to him, in this respect, was the author of the third great classical work of the British school of economics—David Ricardo, whose *Principles of Political Economy and Taxation* was given to the world twenty years after the first pub-

lication of the *Essay on Population*. Ricardo had scarcely any literary education and not much literary aptitude; but he was immersed in economic affairs, and he was a logical genius. He was fully aware of the shortcomings of his style,* and was modest even to self-depreciation. "I am," he said in a letter to Malthus, "but a poor master of language," and again: "My speaking is like my writing, too much compressed. I am too apt to crowd a great deal of difficult matter into so short a space as to be incomprehensible to the generality of readers." This is quite true; but what an uncommon fault! We have not usually to complain of the superfluity of thought as compared with the quantity of chatter or printer's ink. But the defect, though a rare one, was a real one. Ricardo's extreme terseness and his verbal inexactitude make his book one of the most difficult to read. His very perspicacity stood in the way of his exposition; for as Nassau W. Senior says: "His sagacity prevented his making sufficient allowance for the stupidity or carelessness of his readers; and he was too earnest a lover of truth to anticipate wilful misconstruction."†

The labours of Adam Smith and Malthus had done much to recast the thoughts of intellectual men on some of the most interesting questions relating to the production and distribution of wealth; but

* See Dr. Hollander's *Some Unpublished Letters of Ricardo*, pp. 46-8, 86-7, etc.

† *Political Economy*, p. 118.

—owing mainly to defects of method—economics was still fragmentary, and flabby and indefinite in outline. It had arrived only at the jelly fish, or at most at the molluscos stage. Ricardo is excellently described by John Stuart Mill as having first put a backbone into the science. The doctrines of rent, and profits, and international exchange, and currency, were first established by him with a clearness and concentration seldom equalled. But it is not so much what he did, as his manner of doing it, which, to my mind, constitutes his chief merit. Ricardo's work in economics is indestructible. The friction of hostile criticisms (such as those of Jean Baptiste Say and Blanqui) has but burnished it and brought out its splendour.

Professor Marshall, in his *Essay on The Present Position of Economics* (1885), has somewhat weakly admitted that English economists have a "tendency to indulge in excessively abstract reasonings," and pleaded that this "is chiefly due to the influence of one masterful genius, who was not an Englishman (by race) and had very little in common with the English tone of mind. The faults and virtues of Ricardo's mind are traceable to his Semitic origin; no English economist has had a mind similar to his." Now not only does this concede the powerful influence of this "masterful genius" over a race the characteristics of whose minds were alien to his own, but Professor Marshall goes on to say that Ricardo has added more to economic

theory than anyone else, and that the work of economics now requires "a constructive thinker of calibre similar to Ricardo's."

As I have already said, Ricardo contributed the backbone to economics; but it must be acknowledged that, to the popular mind, which is bent less on truth for itself than on practical results, our science at that time seemed nearly all backbone, or bone of some sort. It was regarded as a mere skeleton; and like other skeletons, as somewhat repulsive. The practical outlook it was supposed to give was certainly such as to justify its being called "the dismal science." It was John Stuart Mill who did most to alter this; but he did it at very heavy cost.

It is impossible to understand Mill's contributions to economics, or his works generally, without recognising that there were, in reality, two John Stuart Mills. One of them, the son of James Mill and the disciple of Ricardo, was an Individualist, an experientialist, a keen and unbending logician. This man was my intellectual father. I owe more to him than to any other thinker; and, among other things, he taught me too well to make possible my acceptance of the doctrines of the other John Stuart Mill, who married Mrs. Taylor, and was a Socialist and an emotionalist.

Now Mill himself has told us the source of the inspiration of his *Principles of Political Economy*. In his *Autobiography* (p. 246), speaking of his wife, he says: "The purely scientific part of the Political

Economy I did not learn from her ; but it was chiefly her influence that gave to the book that general tone by which it is distinguished from all previous expositions of Political Economy that had any pretension to being scientific, and which has made it so useful in conciliating minds which those previous expositions had repelled. This tone consisted chiefly in making the proper distinction between the laws of the Production of Wealth, which are real laws of nature, dependent on the properties of objects, and the modes of its Distribution, which, subject to certain conditions, depend on human will. The common run of political economists confuse these two together, under the designation of economic laws. . . .”

I have shown elsewhere* that, in this, “the common run of political economists” were right, and John Stuart Mill II. was wrong ; and I have done so chiefly by quoting the words of John Stuart Mill I. Indeed, the antithesis set up between laws of nature and the human will, if it had any real foundation in fact, would be fatal to economics as a science, which deals throughout with human volitions, and involves throughout the assumption that those volitions are regular in their sequence, like other phenomena of our universe. That this assumption is firmly based on psychological facts no one has put forward with greater clearness and force than John Stuart Mill I.†

* See pp. 43-56 of this book.

† See his *Logic*, Book VI., Chap. II., and his *Examination of Sir Wm. Hamilton's Philosophy*, Chap. XXVI.

I cannot here give a critical estimate of what John Stuart Mill did for economics. This I may say, however—that I regard his *Principles of Political Economy* as an overrated book; that its plan was retrogressive; that his renunciation of the wage-fund theory made his economic system a ruin; and that the last essay in his *Unsettled Questions of Political Economy* constitutes a far better title to his position as an economist than any one thing to be found in his more ambitious systematic work. But I cannot here do full justice to Mill, or to his much under-estimated father. Neither can I, on the present occasion, tell how the science was advanced by the most illustrious of his disciples, Mr. Cairnes, in a work whose production, amid the racking tortures of a cruel and fatal illness, I cannot but regard as an act of heroism and devotion to human interests, perhaps not less worthy of admiration than anything which has been done on a battlefield.

Mill's surrender of the wage-fund theory may be said to have given the signal for the decay of his influence as an economist, and the ushering in of the inchoate period in economics, from which we have scarcely yet escaped. Cairnes's attempt to renovate and defend Mill's system was a failure. The wage-fund theory was beyond repair, not because it was untrue, for it was a truism, but because it was a sham explanation. And the same character of attempting the impossible is to be found in Cairnes's attempt to refute the "final utility" doc-

trine. The theory of "final utility" or "marginal utility" is but a development of doctrine the germs of which are to be found in Ricardo and Mill, and, though both true and important in itself, is, in my opinion, futile as a *substitute* for the causational Ricardian analysis.

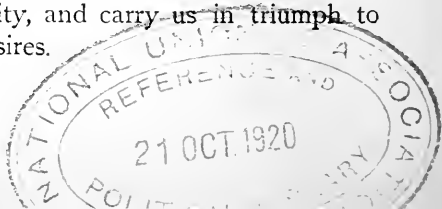
We have now made a considerable part of our way across the sea of troubles on which we were launched by the necessary dissolution of Mill's predominant influence as an economist. Can it be seen in what direction the land lies? As regards method, I hesitate not to say that progress will be on the lines laid down by Ricardo and adopted by Mill and Cairnes. That method seems to me to recognise all that is true in the opposite contentions of the mathematical and historical schools. To the former we may concede that it is the tendency of economics, as of other sciences, to become mathematical. But it is worse than useless—it is delusive to attempt to discount this tendency. We may concede, too, that the historical investigation of economics is likely to prove very fruitful—principally, I would say, in suggesting and verifying deductions. But that the historical can ever supersede the deductive method is, I cannot help thinking, a delusion. Some empirical laws may be obtained by generalising the results of direct observation and historic research; but these must be of comparatively little value till logically affiliated with laws deductively reached. The Austrian school has made its success by acting along true lines of method.

Economics has no doubt a future of endless development before it. For the present, however, our practical need is rather the distribution of the economic truths we have than the production of more—though the endeavour to do the latter should never cease. We must become possessed of more wealth-knowledge, and must act on it, before we can become generally prosperous—before want and overwork, with the disease and demoralisation which follow in their train, can be ejected from our midst. Some, indeed, there are who still call economics a “hard-hearted science,” in utter oblivion of the fact that science has no heart—that it is not one of those false friends of whom Cicero speaks—*ad voluptatem loquentium omnia nihil ad veritatem*—that its object is not to say things which are pleasant, but things which are true. Pay no attention to the silly sentimentalists who seem to think it necessary to shut one's eyes in order to keep warm one's sympathies. Sir James Macintosh said: “I have known Adam Smith slightly, Ricardo well, and Malthus intimately. Is it not something to say for a science that its three greatest masters were about the three best men I ever knew?”

There is no science which we can less afford to neglect. If we do not personally know the distance of the earth from the sun, the age of the megatherium, or the properties of the conic sections—though these matters are scientifically important—no very serious consequences follow. But can we

afford to be ignorant of the incidence of taxation, the meaning and merits of Free Trade, the determining conditions of wages, and interest, and rent, the limits of wealth production, the various problems connected with money, and credit, and banking, and many other most important chapters in economics?

We live in a world the laws of which are beyond our power to alter. With these laws we must make ourselves acquainted under the severest and most certain penalties for ignorance or contumacy. Nature never spares us on account of our want of knowledge. The man who swallows arsenic in ignorance of its properties, is killed as inevitably as he who takes it knowing it to be poison. If we would escape the chastisement of folly, we must learn the laws of the material world, and the moral world—of External Nature and of Man; and those laws then become the slaves of our will. The mariner cannot alter the direction of the winds; but he can so place his sails as to make them propel him in a direction different from their own and carry him to the desired port. So can we, if we will, use those currents of human feeling which, if left to take their course unheeded and uncontrolled, would drive us on the shoals of poverty, and dash us against the rocks of despair, to waft us gently over the sea of prosperity, and carry us in triumph to the goal of our desires.



DISTRIBUTION AS A BRANCH OF ECONOMICS.

*A Paper read before the National Liberal Club
Political Economy Circle.*

OUR society has shown so decided a preference for applications of economics to the political problems of the hour, that I feel almost like an aggressor in asking your attention to a question of economic theory, especially as the appeal I shall make may sound to you very like a condemnation of that comparative lack of interest in abstract economics which I have recognised as a feature of our Circle. My excuse must be that the distribution of wealth is occupying quite an unprecedented share of the attention, not only of the general public, but of speculative thinkers; and that, as I am opposed both to the prevailing drift of thought, and to the opinion which dispenses with that onerous and pecuniarily unprofitable process, on what is supposed to be the Economics of Distribution, the case which I shall endeavour to make out will at least be a good butt for your criticisms.

Let me say, however, at the outset, that I am not about to discuss the question at issue between Socialists and Individualists. That question is, no doubt, in one of its aspects, a question of wealth

distribution, but not—in my sense of the terms, at least—one of Distribution as a Branch of Economics. Indeed, I hope to have with me the more clear-headed both of systematic Socialists and Individualists; and expect to have against me both the quasi-Individualists who distrust abstract economics and tremble at the name of Ricardō, and the empirical Socialists, the men of the judicious mixture school, the “practical” men who seem to derive policy from *pollex*, and decide every question “on its merits.”

My chief aim is to mark out a clear issue on one or two fundamental questions of economic method—to take up a definite position on these questions, and to see how far those who hold that position to be untenable can prove it so by dislodging me. My object is not to expound any Laws of Distribution, but to state and demonstrate what is the general nature of such laws, and their likeness or unlikeness to Laws of Production. I can best assert my position by criticising that of John Stuart Mill on the same subject; and my argument will, in the main, take the form of a polemic against his exposition of the general character of Laws of Distribution in his *Principles of Political Economy*. In this polemic, I shall have Mill himself as a chief ally. Indeed, I may go beyond this statement, and say that I shall merely act as an auxiliary, almost an armour bearer, to the Mill of the *System of Logic* and the *Unsettled Questions of Political*

Economy, while he settles the question with the Mill of the *Principles of Political Economy*.

The view one takes of Distribution as a Branch of Economics is, of course, to a large extent, if not entirely, dependent upon one's views of economics; and here I may say that the Mill of the *Unsettled Questions* and the *Logic* leaves little to be desired.* He states what he calls "the vulgar notion of the nature and object of political economy," and urges against it that "it seems liable to the conclusive objection, that it confounds the essentially distinct, though closely connected, ideas of *science* and *art*. These two ideas differ from one another as the understanding differs from the will, or as the indicative mood in grammar differs from the imperative. The one deals in facts, the other in precepts. Science is a collection of *truths*; art a body of *rules*, or directions for conduct. The language of science is, This is, or This is not; This does, or does not happen. The language of art is, Do this; Avoid this. Science takes cognisance of a *phenomenon*, and endeavours to discover its *law*; art proposes to itself an end, and looks out for means to effect it."† Mill goes on to argue—irresistibly, as it seems to me—that as political economy is a science "it cannot be a collection of practical rules," and urges against the

* To his statement that economics is a mental and social science I cannot assent. I believe it to be neither. But I am not, at present, concerned with this point.

† *Unsettled Questions*, pp. 123-4.

assertion of his father and McCulloch—that “Political Economy may be said to be to the State what domestic economy is to a single family”—that it “sends back the mind to the current loose notion of Political Economy already disposed of. Political Economy is really, and is stated in the definition to be, a science: but domestic economy, so far as it is capable of being reduced to principles, is an art. It consists of rules, or maxims of prudence, for keeping the family regularly supplied with what its wants require, and securing, with any given amount of means, the greatest possible quantity of physical comfort and enjoyment. Undoubtedly the beneficial *result*, the great practical *application* of Political Economy, would be to accomplish for a nation something like what the most perfect domestic economy accomplishes for a single household; but, supposing this purpose realised, there would be the same difference between the rules by which it might be effected and Political Economy, which there is between the art of gunnery and the theory of projectiles, or between the rules of mathematical land-surveying and the science of trigonometry.”*

It appears to me as clear as language can make it that, according to Mill of the *Unsettled Questions*, economics being a science, its laws are generalised statements of fact. The economist, according to this view of his function, which I hold to be the correct one, undertakes to formulate the

* *Unsettled Questions*, pp. 125-6.

permanent relations which exist between the phenomena of wealth and the efforts of human beings concerned in their production; and here his business ends. It is not for him to shake his finger at us—to tell us what we should do and the dreadful consequences of disobedience. Nature, it is true, may be personified; the practical precepts which you or I deduce from the permanent relations of phenomena may be represented as her decrees: and the evil consequences which we trace to non-compliance with such imaginary decrees may be regarded as the punishment of contumacy. But all this is a mere *façon de parler*. Apart from the language of metaphor, the so-called laws of nature are merely generalised facts, which it is impossible to violate or to banish—"uniformities," to use Mill's own words, "which exist among natural phenomena."*

The turning point in Mill is to be found in the preface to his *Principles of Political Economy*. In that he still states that "except on matters of mere detail there are perhaps no practical questions, even among those which approach nearest to the character of purely economical questions, which admit of being decided on economic premisses alone." There can, then, be no Art of Economics. There is, and can be, no body of practical rules corresponding to the theorems of Political Economy, as there is an Art of Logic running *pari passu* with Logical Science. But in the very same preface,

* *Logic*, Vol. i., p. 367.

Mill announces that "the design of the book is different from that of any *treatise on Political Economy* which has been produced in England since the work of Adam Smith"; that "the most characteristic quality of that work, and the one in which it most differs from some others which have equalled and even surpassed it as mere expositions of the general principles of the subject, is that it invariably associates the principles with their applications"; that "no attempt . . . has yet been made to combine his practical mode of treating his subject with the increased knowledge since acquired of its theory"; and that "the idea of the writer of the present work" is to do this. In other words, economics had been, from the time of Adam Smith, differentiating in a scientific direction, from the stage of heterogeneous and empirical art out of which all science arises; and it was Mill's object to take it back to the Adam Smith stage of its development. In that he was eminently successful; and the mischief of that success was never more apparent than it is to-day. What Mill thus began has culminated in the modern Cambridge school of Professor Henry Sidgwick.*

It may be replied to this that Mill's art is avowedly not based on economic premisses alone—that wider considerations are introduced. If this ground be taken, my answer is that, though I have the reverse of sympathy with the muddle-headed objection to economics treated apart from practical

* *Vide ante*, pp. 37-8.

considerations of ethics, I conceive that there is the strongest objection, both scientific and moral, to a mode of treatment of the subject which is, in the main, scientific, but which also assumes to be practical, and in which ethical ideas are brought in "by the way." Most of you, I suppose, have heard of the little girl who was sent by her mother to buy a quarter of a pound of cooked beef, with the direction that it was to be cut with a hammy knife. The result was, not to obtain ham and beef at the price of the latter, but to get the beef cut with what was, relatively to it, a *dirty* knife. My contention is that such attempts as that of Mill to give economics an ethical flavour at a cheap rate, merely result in introducing into it what has been euphemistically described as "matter in the wrong place." Instead of economic problems being solved apart from distractions and qualifications which make any exact conclusions impossible, and the results carried up to the court of ethics, there to be weighed, with other truths which should influence conduct, and assigned their proper worth and place, we have a constant tendency to error in our reasoning, through the change in the point of view from that of theory to that of practice—from that which is to that which ought to be, and *vice versa*, and a very grave probability that we may mistake an economic exposition of things as they are, sugared over with a thin coating of moral platitude, for a vindication of the present condition of society. Ethics is not only dirt when it is thus

brought in to play a subordinate part in an economic treatise; but this subordination is an inversion of the proper relation of economics to ethics.

My contention, then, is that the economist has to deal with the distribution of wealth as the botanist, and not the gardener, has to deal with the distribution of plants. It is no part of his business to say how wealth *ought* to be distributed. What he has to do is to say how it *is* distributed—to formulate the permanent relations of wealth distribution. It is as much out of place for him, as an economist, to denounce this or that fact of wealth distribution as unjust, as it would be for a botanist to declaim against the unfairness of the distribution of plants between the tropical and polar regions. I expect here to be met with the objection that, if sympathetic feeling does, as a matter of fact, enter as an antecedent into wealth distribution, the economist, by shutting it out, is garbling the facts—that he is constructing an economic man who is different from the natural man. This objection would be very forcible if it were true; but it rests on a misunderstanding. The economist does not shut out from consideration moral feeling, in so far as it is an actual economic factor. He will even calculate for you what would be the result of its entering to a much larger extent than it now does, or ever has done, into the economic relations of mankind. But he insists that the truth shall not be obscured by mixing up that which is with that which ought to be, and

treating the result as a homogeneous whole. He contends that the economic results of sympathy and compassion should be recognised as such.

What the economist does is to insist that facts shall be looked at straight in the face, and shall not be regarded as other than they really are, for any sentimental considerations, however worthy the sentiments may be. As auditor of humanity's accounts, he declines to pass a trumped-up balance-sheet because people may call him harsh names, and complain that he has made no allowance for generosity, religion, etc. Either a person, in making a bargain, obtains the best pecuniary terms for himself, or he does not. If the latter, he—from some motive other than economic gain—gives the difference to the other party to the bargain; and the economist calls upon him to recognise the compound nature of the transaction. A father, we may suppose, lets to his son, for £30 per annum, a house for which he could obtain £50. In reckoning his income, he puts this house down for £30. "No, Sir," says the economist, "you must reckon the hire of that house as £50, and put £20 on the expenditure side of your account, as a yearly gift to your son." The annual value of that house for income tax, local rates, or other economic purposes, is properly £50; and any amount less than this which its owner chooses to accept, nominally as its rent, is quite irrelevant. A person, for pity's sake, buys of a poor woman for sixpence some stationery which he could have obtained, with

equal convenience to himself, for fourpence. When he arrives at the office at which he and his partner carry on business, he deposits his stationery and takes sixpence out of the till. "Stop!" says a friend informed with the economic spirit; "do you give alms as a firm?" "No," replies our purchaser; "it is agreed between my partner and myself that anything of that sort shall be done by us as individuals." "Then put back twopence of that money," says his friend; "you gave only fourpence for that stationery, the remaining twopence was given out of commiseration for the woman, and you are not justified in charging your partner with half of it."

If the principle for which I am contending be conceded—and it is really only one of accurate book-keeping—it follows that economists, in treating of distribution, may ignore all deviations from strict bargaining on account of mixed motives, or rather that they may insist that all such deviations shall be entered in their true character. Indeed, were this not so, economics would be the delusive muddle which some academic economists seem disposed to make it. There would be no body of generalised truth; but only tentative conclusions hedged round with hypotheses, or a summing up of economic questions generally in the sapient remark that there is a great deal to be said on both sides. There could be no laws of wages, interest, and rent. And here let me say that the tripartite distribution of the produce—not

wealth generally—into rent, interest, and wages, is independent of hire or exchange. It is really a classification of the produce according to its accretion from the greater productiveness of natural agents, the use of capital, or mere labour; and has no necessary connexion with our social system, or any social system. Were the British nation organised on the Communistic plan, rent, profit and wages would be still there, though they might all be thrown into a common fund for equal sharing among the members of the community. If Robinson Crusoe found the best natural agents in his island insufficient to satisfy his desires, and took into use some of inferior quality, rent would accrue on the better land. If he used capital, interest would accrue. The natural remuneration of his mere labour, in the produce, apart from the increments of rent and interest, would be wages. It has not been sufficiently observed that the Ricardian theory of rent, by showing that rent is a natural surplus, established it as an objective or physical, as distinguished from a social or catallactic, phenomenon; and the same impersonal method of dealing with the phenomena admits of extension to interest and wages.

To return to Mill, I would ask those who think lightly of the logical peril of the blend against which I have argued, to turn to his description of Distribution as a Branch of Economics. In the Preliminary Remarks to the *Principles of Political Economy*, he says: "Unlike the laws of Production, those of Distribution are partly of human

institution: since the manner in which wealth is distributed in any given society, depends on the statutes or usages therein obtaining." If anyone wishes to understand the reason why the rebound from Mill's authority on economics has been so great, let him ponder well this astonishing sentence. It would certainly be difficult to compress more error into so small a compass. To show the absurdity of this statement, I need do little more than to quote Mill himself, and the same volume of Mill. At the beginning of Book II. of the *Principles*, he expands this alleged dissimilarity of Production and Distribution. Production is more than ever rigid; Distribution more than ever the reverse. Not only "the laws," but also "the conditions of the production of wealth, partake of the character of physical truths. There is nothing optional or arbitrary in them." On the other hand: "It is not so with the Distribution of Wealth. That is a matter of human institution solely." It depends, we are told, "on the laws and customs of society. The rules by which it is determined are what the opinions and feelings of the ruling portion of the community make them."

Now mark the following words from the commencement of the very next paragraph, and especially the last two sentences, which I have italicised:—

"The opinions and feelings of mankind, doubtless, are not a matter of chance. They are consequences of the fundamental laws of human nature,

combined with the existing state of knowledge and experience, and the existing condition of social institutions and intellectual and moral culture. But the laws of the generation of human opinions are not within our present subject. They are part of the general theory of human progress, a far larger and more difficult subject than political economy. *We have here to consider, not the causes but the consequences of the rules according to which wealth may be distributed. Those, at least, are as little arbitrary, and have as much the character of physical laws, as the laws of production."*

If this means anything—and it appears to me as clear as it is correct—it is that, though the concrete facts of distribution do depend, *inter alia*, on the *civil* laws and customs of society as they operate in conformity with the *natural* laws of the Distribution of Wealth, it is these latter laws, or uniformities of nature, that the economist undertakes to formulate.

But what, then, does Mill mean when he says that the Laws of Distribution are partly of human origin? He seems to have used the term "law" ambiguously, so as to set up a contrast between the Laws of Production and those of Distribution. This does not rise above the level of a pun. It is as if one were to say that rent is partly the surplus produce of the better qualities of land and partly a breach caused by tearing. Unless the word "laws" be understood in two different senses, it is not true that the Laws of Distribution are

partly of human origin; and it is only by restricting the use of the term, when applied to Production, to one of these senses—that is, by using it in a different sense from that in which it is used in the other clause of the sentence—that any such distinction between the Laws of Production and those of Distribution as that against which I am contending can be maintained.

Are Production and Distribution, then, as subjects of economic science, in no way contrasted? I think that such a contrast actually exists, and I will endeavour, in a few words, to state its nature. Economics is a science of causation—a truth whose consequences are often not fully realised, especially by the mathematical economists; but, in its two branches, the problem of cause and effect is usually approached from opposite sides. In the one we have given a certain quantity of wealth as existing in a community, to determine how it is that this is no more and no less. In this case we have to reason from effect to cause. In the other Branch of Economics, we have given to us a certain cause to determine its distributive (and perhaps its productive) effects. Here the reasoning is from cause to effect. To this extent, the problem of Distribution as a Branch of Economics stands in antithesis to that of Production; but the notion that one of them is more than the other removed from the sphere of natural law, or more within the domain of human choice, is, so far as I can make out, entirely devoid of logical foundation.

THE ECONOMICS OF LABOUR REMUNERATION.

A Lecture delivered at Bristol.

“Je n'impose rien ; je ne propose même rien ; j'expose.”—

CHARLES DUNOYER.

I PROPOSE to restrict what I have to say this evening exclusively to the exposition of a portion of the science which has been called dismal, and which most persons seem to think deserving of that name. If I may paraphrase the words of a celebrated French economist,* I shall impose nothing on you, and propose nothing to you, but merely expose to your apprehension and your judgment what, as a result of a third of a century of study, I hold to be the teaching of economics with regard to a subject which ought to be of great interest to you, namely, the remuneration of labour.

This method of proceeding will, no doubt, seem to some persons a very cold-blooded one. Cool it is ; but I should say, not cold-blooded, but cool-headed. Be as warm, ladies and gentlemen—as

* See motto above.

sympathetic as you like ; you cannot be too much so for me, so long as you restrict your warmth to your heart, and do not let it mount to another organ which it is very much better to keep cool, if one wishes to distinguish between fact and fiction. Be as soft-hearted as you can ; but beware of allowing that softness to ascend to a region which will not be improved by it. Love of our fellows is an excellent guide to conduct ; but it is a snare when substituted for accurate knowledge of the facts and laws of our economic environment.

I intend, on the present occasion, to keep strictly to the economic standpoint, to trace the causes which determine the remuneration of labour, without reference to the question of right or wrong. In doing this I shall be doing my best to enable you ultimately to understand the question as one of right far better than if I proceeded at once to the ethical and political consideration of the problem of wages.

I have no doubt you have heard that, some few years ago, economics was banished to a remote part of the solar system. (Laughter.) Do not laugh at this. It is quite possible to banish a science ; for science does not mean a body of laws of nature, but the *knowledge* of those laws. We cannot banish the law of gravitation, or the laws of number summed up in the multiplication table ; but we can banish physics and arithmetic. We cannot undo the truth that arsenic is poisonous ; but we can ignore it—and take the consequences.

The laws of nature, which were with us before we discovered them, will be with us after we have declined to recognise them. They did not come at our bidding, and they will not go because we dislike them or tell them to "be off." Whether we like it or not, we are in their toils. As long as we live, they will determine for us the limits of the possible. They will set bounds to all our achievements, and eventually to our lives. Do not misunderstand me. I do not wish to beg the question, at the outset, as to what *are* laws of nature. All I wish to impress on you at this stage of my argument is that if a given set of propositions *do* formulate laws of nature, though we may shut our eyes to the propositions, it is mere drivel to talk about the banishment of the laws.

Now, within the last few years, economics has been under a shade in this country. Politicians have chosen to regard it as something which has served its purpose and may now be put aside. As I have said, that may be done. But what is the result? One result is that you have had at least six millions sterling *per annum* added to the burden of the general taxpayer and transferred to the rent-roll of the landowners of this country, under the false plea of relieving the local taxpayer. This six millions per annum capitalised amounts to £200,000,000, or about a quarter of the national debt. From the very inception of this system of subventions to local taxation, I wrote denouncing it as a fiscal fraud; but my labour was useless.

Economics was banished, and I spoke in an unknown tongue. Recently, my friend Dr. W. A. Hunter, M.P. for North Aberdeen, has written an article in the *Contemporary Review* putting the matter in a very clear light; and he and several other Members of Parliament have recently drawn attention to it in a letter to the Chancellor of the Exchequer, in which they propose that we should retrace our steps. But the people, even now, do not understand what has happened. How should they? Economics has been banished, and it cannot be brought back again, for a special occasion, into the popular mode of thought. I give you this as an example of the sort of thing which may happen when you send economics on a tour to Jupiter or Saturn. That science will go; but you will have to pay the travelling expenses, and you will find them very heavy.

Now the immediate subject of this evening's lecture is the economics of labour remuneration. I am not going to say a single word about how labour *ought*, or ought not, to be rewarded. My present task is to lay down, as an economic foundation of any moral or political judgments at which you may arrive, the conditions upon which the remuneration of labour depends. We can investigate the causes of economic effects, and trace the effects of economic causes, quite apart from any consideration of what ought to be; and I would like to point out to you that, if you really wish to be guided in your conduct by a thoroughly sound system of

morals—if you wish your political decisions to be such as will redound to the highest happiness of your fellow citizens and the human race, then, believe me, you cannot be too careful in laying for this moral edifice a sound foundation in economics. Without that, all your good intentions may go for nought, or may even aggravate the evils which you seek to remedy. It is one of the saddest reflections with which I am acquainted that, if we have to search out the most monstrous iniquities and miseries which have been inflicted on mankind, we shall find they have been the work of men with excellent intentions, and who strove in the name of the most sacred causes, but who either regarded science as an enemy or had not yet attained to that knowledge of it which anyone of moderate abilities may now easily get by taking the requisite trouble.

In endeavouring to ascertain the laws of the remuneration of labour, it is well to dismiss from the mind, at starting, all notion of that remuneration depending on hire by a capitalist. Let us first take the case of men who have access to the raw material of the globe and are working each for his own support. Their remuneration will be the produce they obtain. At the commencement of production, we have simply the raw materials with which nature furnishes us, on the one side, and what may be called the raw labour of man, on the other. But when we get a little farther on in economic development, instead of a man working directly for the

production of articles of consumption which are to form the remuneration of his labour, we may find him labouring for the production of some instrument which he can afterwards apply so as to make his labour more productive. Pay great attention to him while he is doing this ; for, when the first man did this, capital was born.

Now what is the result of this action of the creator of capital? He has to wait longer for his reward, but he gets a much larger one. The extra remuneration, then, is not due to extra labour, but to waiting. This waiting is the second part of the price which man has to pay for produce, labour being the first. We have, as Longfellow says, "to labour and to wait." Technically that portion of the produce which is the reward of labour is called wages, and that part which is the result of waiting is called interest.

But there is a third portion of the produce, which accrues, not from labour and not from waiting, but from the superiority of some natural agents over others. Other things equal, men naturally prefer the most productive natural agents which are accessible to them ; and at first they make but limited use of them. But after a time, when they increase in numbers, and the demand for food and other necessities becomes greater, they are placed on the horns of this dilemma—they must either have recourse to worse natural agents or they must more highly cultivate those at present brought into use, with the result in either case that they get a

smaller reward in proportion to their pains. And as men continue to multiply, this process goes on, and with it the produce-fund, which is the natural reward of labour and waiting, tends to be a constantly diminishing quantity in proportion to the work and waiting which form its cost of production.

Now you will see that we are met with the circumstance that this reward is not always the same, and that its amount depends on whether man's energies are used in combination with a more or less productive natural agent. Strictly speaking—and economists should always speak with rigid accuracy—the surplus of produce which is obtained by means of the better natural agents, over and above what is obtained from the worse natural agents, is not due to man, but to the greater productiveness of a portion of external nature. This surplus is, therefore, classed separately by economists, and is called economic rent.

We have thus a tripartite division of the produce into wages, interest, and rent, corresponding to the agencies through which they accrue—labour, waiting, and superior natural agents; and I want to draw your attention to the fact that this division of the produce into three parts is not in any way due to there being three separate classes of persons to receive them, or to any system of division of the produce, but would exist under any conceivable organisation of society. Wages, interest, and rent, there will be so long as men engage in productive occupations and the present order of nature exists.

You may as well try to get rid of them as to make seven groups of nine things each into sixty-four, or to breed horses from humming-birds.

But what does this mean? As I have already told you, it does not mean that there must necessarily be separate classes of persons, whose incomes are derived, some from wages, some from interest, and others from rent. There is no economic necessity which I have been able to discover that rent should be a source of private income. The globe which we inhabit was not made by the landowners, or by their predecessors in title; and its continuing to exist does not in the least depend upon anybody's exertions or anybody's privations. Into the history of how a large portion of the earth's surface, especially in our own country, has become private property, it is not my present purpose to enter. I must content myself with saying that it has not come about from any economic need. Whether there are any moral or political reasons sufficient to justify its maintenance, or, if not, what should be done, are questions beyond the scope of the present lecture.

Let us then, for the present, leave out of consideration the portion of the produce which we have called economic rent. In any case, whether it forms a part of the private incomes of a small class of landowners, or the benefit is equitably distributed over the whole nation—as it might be, it does not accrue from mere labour, but from the superiority of some natural agents over others, and is, there-

fore, not labour remuneration in the sense in which I am using the term. We have thus left a produce-fund to be divided between labour and waiting. Upon the amount of this fund and the manner in which it is divided will the remuneration of labour depend. But, before we proceed to consider how this distribution is made, there is one caution which I have to give you. It is the net produce, not the gross produce, which is divided. It is evident that such portion of the produce as is lost through insecurity is not available for distribution; and any payments which are made for security are really losses through insecurity. All taxes, as well as such a sum as will cover business losses and charges of all kinds, must be deducted, before we have the net produce-fund which is the reward of the only onerous contributions man makes to the production of wealth, namely labour and waiting.

In order to make the matter clearer to you, I will proceed by way of illustration. Suppose a man has a bill to discount? Upon what will the worth of the bill depend? Upon the amount for which it is drawn, upon the date at which it is due, upon the probability of its being paid when due, and upon the market rate of interest current at the time at which it is discounted. Now you will find that these circumstances have an exact parallel in the case of the remuneration of labour. Wages will principally depend on the total amount of produce, which corresponds to the amount for which the bill is drawn. But they will also depend on the

time which elapses between the commencement of production and its consummation in consumption upon the risks and charges incidental to the production, and on the rate of interest prevalent at the time. And all this, please bear in mind, is quite independent of hiring, and would exist if hiring had ceased to be. Be the economic organisation of society what it may, the remuneration of labour will be limited by its produce, after deductions for the losses which occur in the productive process, the length of time over which that process extends, and the estimation in which deferred rewards are held as compared with present ones—which is measured by the rate of interest.

We are now in a position to understand better the state of things which for the most part obtains in our present society, in which the labourer usually sells his labour. What the productive labourer really does here is to sell his portion of the produce. The person who buys his labour does not care for it as labour, but only as a factor of production; and it is the produce which he buys, at a price which he reckons to pay him interest for waiting, insurance for risk, and wages for superintendence.

This being the case, what are the circumstances which are conducive to labour receiving as large remuneration as possible? In the first place, it is evident that, as labour is paid ultimately out of produce, and can, in the long run, be no more than a large share of it, anything which tends to increase the produce tends also to increase

wages. It is in this way that Free Trade, by tending to the production of each class of goods by those persons and in that place in which it can be produced at greatest advantage, favours the higher remuneration of labour. It is the interest of persons who live by the sale of their labour to make it as productive as possible.

This may seem to some of you, as it seems to a great number of persons, an astounding paradox. It is undoubtedly in opposition of the most ultra kind to popular notions on the subject. Protective duties, opposition to piecework, enforced limitation of the hours of labour, are all advocated, by the majority of their supporters, on grounds which imply that the road to economic prosperity lies through limitation of supply; and every class of persons strives to make the commodity or the service it sells as scarce as possible with the view of increasing its value. How then, you may ask, can it be true that the high remuneration of labour depends on exactly the opposite state of things? If I can make this clear to you, I think I shall have done much to dispel one of the worst economic fallacies with which mankind is deluded at the present day.

Up to the present point I have not troubled you with the question of value, simply because the whole of what I have hitherto contended for is quite apart from it. And I hope you will see the utter impossibility of a large remuneration for labour generally being possible when the produce-fund out of which it is paid—for there is nothing else out of which

to pay it—is restricted and lessened. The only thing which I really have to explain to you on this point is how it is that some persons may be benefited by restriction of the output of their labour.

As soon as a division of labour has arisen, and some persons are employed on the production of some commodities and some on the production of others, the remuneration of each section of the labouring community will depend, not only on the total produce, but on the purchasing power of its share of the produce over the remainder. Let us take the case of men engaged in making boots. They are interested in the general produce-fund being as large as possible. But they are not interested in the same way in their own contribution to that produce-fund. If their output of boots is in excess of the demand, or is potentially so, the value of boots and of bootmaking labour will tend to fall. If, on the other hand, there is difficulty in turning out the quantity of boots required, the value of their labour will tend to rise. Any restrictions which they can put on the supply of bootmaking labour will be a source of gain to them, so long as the scarcity-caused rise in the value of their produce is greater than will compensate for its diminution in quantity. But this gain will be purchased at the expense of a more than equivalent loss on the part of the consumers of boots. If not only the bootmakers, but all other trades were to endeavour to raise their remuneration in this way, the net

result would be to lower the remuneration of labour all round. The general produce-fund would be lessened, and I suppose that you do not need to be told that, in a division sum, when the divisor remains the same, the lowering of the dividend results in the lowering of the quotient. All the declamation in the world will never alter this fact.

I hope I have now sufficiently established and illustrated the most important truth that wages are limited by the produce of labour. But please to bear in mind that it is not the mere increase of the produce in which you are interested, but the increase of the produce *per head*. If the population of these islands could be suddenly doubled, the produce would be much greater; but, if it would not be double what it was, this increase would leave you worse off than you were before. And there can be no doubt that this is what would happen. The fruitfulness of human labour is contingent on circumstances relating to man himself and circumstances relating to external nature. But the circumstances relating to external nature are in a great measure within the control of man. Natural agents differ very much in fertility, from the soil which "if you tickle it with a hoe it laughs with a harvest" to the barren rock or arid desert from which no amount of human labour could produce anything worth taking into account. Now, if the natural agents within our reach at a given time were arranged in order of productiveness, it is evident that, other things equal, the success of our produc-

tive efforts would depend on how far we would have to travel, in our process of taking into use one natural agent after another, from the pole of fertility towards the pole of sterility. The point to which we had gone in this journey—called the margin of cultivation or the margin of productive use—would measure for us the possibility of the success of our efforts in the creation of wealth, in so far as that is dependent on external conditions. But the place of this marginal point or marginal line will depend on our demand for the products of extractive industry; and, other things equal, this will depend upon our numbers. At every increase of population, the tendency is for the human tide to roll onward towards the pole of sterility.

It is true that there is an offset to this. The same concentration of population which has this untoward result gives facility for the further division of labour and large-scale production; but the advantage from this becomes less and less, while the disadvantage resulting from the resort to inferior soils, and worse natural agents generally, becomes greater and greater. Within the last half-century this has been masked for us owing to the marvellous increase in the facilities of transport, which have brought within our reach the produce of large tracts of land in all quarters of the globe, with the special aptitudes of various climes, peoples, etc. Luckily for us of the British Isles, ^{a nephew of} the greatest genius of economics, David Ricardo—not Richard Cobden, as is commonly thought—succeeded in

convincing Sir Robert Peel of the advantages of Free Trade; and that estimable statesman and his disciples have struck down many of the fiscal barriers to our exchange of products with other nations.

ERRATUM.

Page 70, third line from the bottom.
Before "the greatest" insert "a nephew
of."

tiousness with which work is done, and the intelligence with which it is directed, very much will depend. Any slackening of energy or care, any neglect to develop the highest skill, any rules or arrangements which induce men to produce less than they would have otherwise produced, inevitably tend to ~~lessen~~ wages by lessening the produce out of which they are paid. And the same may be said of more directly moral shortcomings. The cost of supervision and checking represents, for the

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convincing Sir Robert Peel of the advantages of Free Trade ; and that estimable statesman and his disciples have struck down many of the fiscal barriers to our exchange of products with other nations. But let us not delude ourselves with our good fortune. Any advantages such as these, gained by access to the products of foreign lands, may put us farther back from the pole of sterility ; but, with the increase of our numbers, the march towards it recommences. I do not say that other advantages of a similar nature may not turn up in future. They probably will. But if the growth of population go on *pari passu* with these discoveries, this will largely decrease, and perhaps nullify, the effect they would otherwise have had in augmenting the produce per head, which is the most important factor of labour remuneration.

Leaving then the question of productiveness in so far as dependent on natural agents, let me next ask your attention for a few minutes to its dependence on man. Upon the energy and conscientiousness with which work is done, and the intelligence with which it is directed, very much will depend. Any slackening of energy or care, any neglect to develop the highest skill, any rules or arrangements which induce men to produce less than they would have otherwise produced, inevitably tend to lessen wages by lessening the produce out of which they are paid. And the same may be said of more directly moral shortcomings. The cost of supervision and checking represents, for the

economist, a large waste of human effort and consequent lessening of its rewards.

I have now sufficiently described the circumstances on which the total amount of the produce-fund depends. I will now endeavour to state to you, as clearly as I can, the causes which determine the total amount of charges on that fund, which must be deducted before the fund goes to the remuneration of labour. As you will easily see, you are not only interested in the fund being as *large* as possible, but in the charges being as *small* as possible. Now what are these charges? In the first place there is insurance, which is merely the average of loss. Now this must come out of the produce-fund, and it will not come out of the part of it which goes to waiting, which is determined apart from this, in a manner which I will presently describe. Not only all losses by the accidental destruction of produce, or failure in the productive process, but all losses caused by the workmen themselves, or charges imposed by or for them, come, in the long run, out of their wages. The loss incurred through a strike of workmen may fall on a particular capitalist who is getting no more than current profits; as the loss caused by the non-payment of a particular bill may fall on the banker who discounted it. But, just as the dishonouring of this bill will tend to raise the rate of discount, which increased payment will have to be paid by the holders of bills, and will diminish their present values, so the loss

caused by a strike when it is anything more than an attempt of labourers, by the withdrawal of their services, to obtain the economic rate of wages, will have to be paid in a similar way. The risk of its recurrence will be discounted, and the amount of this discount will be deducted, with other charges, before the residue is available for wages. You may not see this, as it may not take effect through a lessening of the money wages of the labourers concerned. A trained economist might possibly trace it for you through the machinery of prices; but, even for him, it would not be an easy matter.

I now come to the question of interest. This, as I have told you, is the reward of waiting, just as wages are the reward of labour. Now in order that the remuneration of labour may be as high as possible, interest should be as low as possible. How is this to be brought about? In one way, and one way only—by the increase of capital or, more generally, of the investment supply, relatively to the demand. The more capital is piled up, the better it is for the wage earner; for, other things equal, the larger the supply of capital, the lower the rate of interest. When there is more capital than can find profitable employment at the current rate of interest, capitalists will compete against one another for a place in the field of investment, and interest will decline while wages will rise. I believe there is nothing to prevent interest going down to zero, provided its accumulation be not discouraged. Look at what happened only a few years ago. A Royal

Commission was appointed, in 1885, to investigate the Depression of Trade and Industry. Now what are the facts described in the report of that Commission? What was it that constituted the "depression"? Was the total amount of the produce-fund less than in former years? No; it was greater than it ever had been. Then the produce per head had decreased? No; just the reverse. Then, perhaps, though our incomes had been greater, we had outrun them by extravagance? Not so; we had saved more than ever. Then what, you may well ask, was the nature of the "depression"? Now listen to the words of the Commissioners:—"There can be no doubt that, of the wealth annually created in the country, a smaller proportion falls to the share of the employers of labour than formerly. The view, therefore, which we are disposed to adopt is that the aggregate wealth of the country is being distributed differently, and that a large part of the prevailing complaints and the general sense of depression may be accounted for by the changes which have taken place in recent years in the apportionment and distribution of profits." If you look into this report, you will find that the mode in which the distribution turned in favour of the remuneration of labour and adversely to profits was by a fall in the prices of commodities, and not by a rise in money wages. It all happened without any struggle on the part of the workmen, merely by the competition of capitalists among themselves.

There is one more explanation I have to make. You may be under the impression, notwithstanding what I have just said, that the capitalist may get large remuneration, not as interest, but as wages of administration. It is not, you may think, as a lender of capital but as an exploiter of labour, that the capitalist gets the best of the bargain. Let us see how far this is true. Now that capitalists sometimes make large fortunes is quite evident; but a very considerable portion of this is insurance, that is to say, it is counterbalanced by equivalent losses. To some extent all business is a lottery; and, if we wish our calculations to be accurate, we must not concentrate our attention on the few big prizes and ignore the blanks. Those big prizes which are not to be accounted for in this way, are mostly connected in some way or other with the land monopoly or with personal ability.

Now with regard to what is paid for personal ability, I cannot for a moment allow that this is at the expense of labour. On the contrary, labour gains by being exploited, and will gain more if it do not kill the goose which lays the golden eggs. What ability receives ability produces; but it does not obtain all that results from its exertion. Let us suppose a hundred workmen each working and obtaining a result equivalent to five shillings per day. Someone with organising skill sees how, if they worked under his direction, they could produce eight shillings per day. In order to induce them to be exploited by him, he offers them half the surplus

produced by his captaincy. They thus have 6s. 6d. per day and he £7 10s. He is a rich man, but his riches are not extracted from the workmen. On the contrary, he has raised the remuneration of their labour by nearly one-third. It does not, however, follow that the labourers might not get still more of the advantage from organising skill. If it were relatively less scarce, it would be less highly paid; and what it lost in this way labour would gain. Now it is the tendency under freedom for this sort of ability to grow, while there is also a tendency to economise it by the increasing scale of production. Labour, therefore, stands to win by leaving it to quietly increase and multiply; and of this multiplication its high remuneration is one of the chief factors. It is useless to attempt prematurely to underpay business ability. Such attempts have been one of the main causes of the failure of co-operative production.

Respecting Socialistic endeavours to raise the remuneration of labour, I have very little to say on the present occasion, except that you would not get rid of any of the economic laws to which I have drawn your attention by the adoption of any Socialistic or Anarchistic scheme. They would still be with you. Wages would be there; and they would still be limited by the produce-fund and the charges on it. This, however, leaves the case of Socialism undecided. The battle of Socialism and Individualism must be mainly fought out on ethical ground. One thing, however, I may add: the

notion that, under Socialism, competition would be got rid of is an illusion. It would merely change its form. Instead of industrial competition, which might be as mild as that of the cricket field, you would have political competition, which, when it ran into all the concerns of daily life, would be a terrible incubus. So far as I am able to judge, the economic future which would result in the largest remuneration and the most dignified position for labour lies in the opposite direction to that of Socialism ; but I cannot now pursue this subject without transcending the bounds which I have set to the present lecture.

ECONOMIC CHATS.

I.—THE LAW OF DIMINISHING RETURN.

"WE often meet after lunch, Leigh; and our conversation is, perhaps, not as profitable as it might be. Will you let me make use of the opportunity to cross-question you on economics?"

"With pleasure, Buckley; but you must keep to the subject: no talking on things in general and calling this economics."

"All right; you shall keep me to the point. How shall we begin?"

"Suppose we commence with what John Stuart Mill calls 'the most important proposition in political economy.'"*

"With all my heart; but is not this attempting to get to the top of the ladder by a single leap?"

"No; importance does not imply difficulty. Moreover, this Law of Diminishing Return lies very near the threshold of our subject; and I have a brilliant idea. It wants two hours to lunch time. We will have a little excursion, and make our old friend John Bean teach it to us. He has taken a

* *Principles of Political Economy*, p. 109.—The references to this book will be to the "People's Edition."

farm at Headtree; and I propose to pay him a visit and extract from him our first lesson in economics."

"John Bean! He knows no more about economics than I know about . . ."

"It doesn't matter. The flowers probably do not know much about honey; but the bees manage to gather it from them, nevertheless. Besides, I have a mischievous delight in extorting from a so-called 'practical man,' who despises theory, the statement and proof of a theory on which he has been unconsciously acting."

The two friends went to the railway station, and were just about to book for Headtree, when the elder of them, a remarkably active-minded man of over seventy years, caught sight of the object of their quest among a crowd coming from the arrival platform.

"Isn't that John Bean?" said he, pointing.

"By all that's . . . Hullo! Bean."

The man thus unceremoniously addressed turned round and ejaculated:

"This *is* a surprise. Who'd ha' thought of meeting you, Leigh?—and you, Buckley?"

"You will be more surprised when you learn what we came here for," said Buckley. "We were going to Headtree to see you."

"Eh!" said Bean, "I'm quite well."

"No doubt," said Leigh. "We can see that. But we were not inquisitive about your health. We want to learn something about your farm."

"Going into agriculture? Take my advice. Don't; it's a losing game!"

"Well, I won't inquire how much a year you pay your landlord for the privilege of playing that losing game, for that would be a side issue. No, my dear Bean, we are bent on cultivating our minds, not the earth. But, for that very purpose, we are in want of some information on the earth's cultivation, and so we thought—or, rather, *I* thought—of applying to you."

"You are quite welcome to anything I can tell you. What crop have you in mind now?"

"None that you would care about," said Leigh, with a slight twinkle of the eyes. "But let that pass. I want you to answer a few straight questions about your land."

"Go ahead."

"How much land have you?"

"Over fifty acres. Let us see . . ."

"That is near enough. Is it all of one quality?"

"Of course not. About thirty acres is good land—as good as you will find anywhere. Nearly twenty acres is what I should call fair, but not nearly so good as the other. And then I have two or three acres which are worth just nothing."

"Very well; let us say roughly that there are 30 acres excellent, 20 fair, and two worthless. Now I suppose you reckon that you pay the bulk of your rent on the 30 acres which we have agreed to call excellent. Is not that so?"

"Yes; but I consider I pay some on the 20 acres

of fair quality. For the two acres which are decidedly bad I reckon to pay none. I make use of some of it; but I could not afford to pay rent for land like that."

"No doubt: it has to be taken with the other land because of its situation, but you could not cultivate it at a profit and pay rent for it. Indeed, as I understand you, it will not pay to till it, even rent free?"

Bean nodded assent; and Leigh continued: "But if the demand for agricultural food-stuffs were to go up, and their prices were to rise in consequence, it might then pay to cultivate this bad land?"

"Certainly, *if*."

"In other words, as the prices of agricultural produce go up, the quality of land which it pays to cultivate goes down; or, as we say, the margin of cultivation is depressed. With each increment of agricultural values, worse and worse land is taken into cultivation."

"Yes, I can see that, though I never thought of it before."

"Now that is the very thing I want you to explain to me, Bean."

"Explain to you! Why it's as plain as a haystack. Haven't you said so yourself, Leigh?"

"The *fact* is, as you say, as plain as a haystack; but the explanation of that fact unfortunately is not."

"Why can't you be content with the fact?" said

Buckley. "There it is, and there's an end of it."

"Aye! Aye!" chimed in Bean.

"No," said Leigh, "there's *not* an end of it. Why do you take worse land into cultivation, that is what I want to know, and what I shall get you to tell me, Bean. I shall astonish you, before I am done, in showing you what a profound economist you are without knowing it."

"It's quite likely. I always thought I knew more than you theoretic chaps, if anybody would draw it out of me."

"That is just what one of these 'theoretic chaps' is in process of doing. Now, attention. You said just now that some of the land you cultivate is much better than some other land which you also cultivate and for which you reckon that you pay rent. What do you mean by this best land being better than the other?"

"Well, that's just like you Cockney fellows. We know which is the best land by trying it!"

"No doubt, Bean. I can assure you I did not suspect you of reaching it by any process of deductive reasoning. But if you had two ploughs, and you considered that one was better than the other, I suppose you would be able to point out to me why you held it to be the preferable instrument—that it cut the furrows better, or that it did its work at less cost in labour, or that it would stand more wear and tear, or some similar quality. Now, in the same way, I want you to tell me why

you consider one acre of land better than another."

"Because I know it's better. Why, man, it yields a better crop. Isn't that sufficient?"

"Quite. For a given expenditure on cultivation, an acre of the better land yields a more valuable crop—either better in quality or larger in quantity, or both. Is that right, Bean?"

"Of course it is. Who disputes it?"

"Nobody, as far as I know. But there are many indisputable truths which are not very clearly realised, especially in their consequences. It frequently happens that an economic law only ceases to be a paradox when it becomes a truism. But we must not pursue that, Bean. I have now the crucial question to ask you—the question the answer to which will give the information which Buckley and I are in search of. You have told us you have two qualities of land in cultivation, for both of which you pay rent. You have told us that 30 acres of this land is much better than the other 20 acres, and that you mean by this that it yields, per acre, a more valuable crop, for the same expense of tillage. Now what I want to know is this:—Why, under these circumstances, do you not devote all your capital to the cultivation of the better land? Why do you pay rent for the use of land of inferior quality, on which your return for a given amount of expenditure is less, when you already have land of superior quality, on which the return for a given amount of expenditure would be greater? Why

do you not devote all your capital to the better land, and save the rent on the worse?"

"Why don't I? Because it wouldn't pay. That's the long and the short of it."

"I am not disputing it. I do not doubt your business sagacity. But you tell me that if you removed a portion of your capital to land which yields a larger return for expenditure, you would lose by it. Is not that rather curious?"

"It sounds very curious, I must confess," said Buckley; "but it is no use worrying Bean. Tell us the way out of it."

"No; I want Bean to tell us. But it is clear that I must give him some help. Now I understand you, Bean, that if you spent £100 on the cultivation of a certain area of your best land and the same sum on the same area of your worse land, the return from the former would be greater than the return from the latter; but that if you spent the whole £200 on the cultivation of your best land you would not be so well off as by spending £100 on the one quality of land and £100 on the other."

"Yes, that is quite true."

"Then it is evident that the second £100 applied to the best land would not produce as great a return as the first £100; and 'in the same manner it can be proved,' as Euclid would have said, that if you spend a third £100 on it, this would produce less than the second. I suppose you will admit that?"

"Ah!" said Buckley, "I begin to see daylight now."

"Don't interrupt. Is this true, Bean?"

"Quite right; but I don't see what is the use of it when you know it."

"And I suppose," continued Leigh, without noticing Bean's disparaging remark, "that this diminishing return is true of all land cultivation?"

"It is certainly true of all land that I know anything about, or that I have ever heard of."

"Very well; then I think we may venture on calling it a Law of Diminishing Return. Q.E.D. But there is one more point, Bean, on which I want information. I think it follows as a corollary from this general truth—or law, as it is fashionable to call it—that, at any given time, the values of agricultural produce and the state of agricultural skill being what they are, there is a height up to which it is profitable to cultivate any piece of land, and beyond which it is unprofitable to cultivate it; and that this point will be lower, the lower the quality of the land in question, till at last we reach land which, under the given circumstances, it will be totally unprofitable to cultivate."

"Didn't I say that?"

"I am much obliged to you, Bean, for all the valuable instruction you have given us; but as I see Buckley is getting anxious for his lunch, and you have given him a sufficient dose of economics for one occasion, I will express to you our joint indebtedness, and wish you good day."

II.—THE LAW OF POPULATION.

"YOU promised, Leigh, to return to the subject of the Law of Diminishing Return in our next conversation; but here is my friend Mr. Philip Istinn, who does not believe in economics, and who is especially energetic against the Law of Population: I wish you would speak to him on that subject."

"I am quite willing to oblige you, Buckley; but I would like to know more about your friend's point of view."

"Well, you see I am a practical man," said Istinn. "I don't care a jot about theories which will not square with facts."

"Quite right," said Leigh; "but be careful that you are not misinterpreting the facts and that you quite understand what is asserted by the theory; for a lapse in either direction will land you in error. The Copernican theory of the revolution of the earth round the sun was resisted as inconsistent with the evidence of one's senses; but the persons who argued thus misunderstood the evidence: that is all."

"Ah! I know; but we are not talking about astronomy. That is a science. What I assert is that your so-called economics is all bosh, and that the Law of Population is the worst bosh of the lot."

"What do you understand by the Law of Population?"

"Really there is no need to ask me that question. You know as well as I that it asserts that human beings increase faster than food."

"Pardon me; I do not know that. Indeed, as human beings cannot live without food, I do not see how they can increase—except for the short time that it takes to starve them—faster than their food."

"That is just what *I* say!"

"And you are quite correct; but economics in general and the Law of Population in particular are unaffected by your statement."

"Well now, look here. Here is the *Malthusian* of November, 1898. On the first page, I find it stated that 'Malthus's dogma' is 'that man tends to increase at a quicker ratio than food supply.' Is that true?"

"It is not. Wheat and potatoes, herrings and rabbits, pigs and sheep, tend to increase at a quicker rate than man. But that is not to the point. The tendency of human beings is to increase beyond the limits of the actual, or indeed the possible, food supply; and, if that tendency is unchecked by other causes, so that population presses against these limits, it is no consolation to persons with empty stomachs to tell them that the abstract potentiality to increase of cereals and fish is enormously greater than that of man."

"I do not see that people increase in this way. Where have they ever done it, I should like to know?"

"You might as well ask a physicist to give you an example in experience of the First Law of Motion. You do not deny, I suppose, that a body once set in motion tends to move endlessly in a straight line with undiminished velocity. But no body has ever actually done this. It is just the same with the Law of Population. That law is a statement of a tendency which is never actually realised, which is always checked in some way or the other——"

"But," interjected Mr. Istinn, "if it is always checked, what need we care about this precious 'tendency.' I like to be practical, I do."

"And still," replied Leigh, "you are taking up the most unpractical attitude. Let me, however, first remind you that you are going away from the question; for the point we are discussing at present is, not the practical value of the Law of Population, but its truth. I will, however, cede this objection for the moment, in order to point out to you that it is the very fact that some of the most momentous economic laws are laws of tendency only that makes economics so important as a guide to conduct. It is not the actual, but the contingent future—the future contingent on human behaviour—which is morally of consequence to us. The actual future is as immutable by human conduct as the actual past. If the Law of Population itself were the statement of an irresistible trend of human beings to increase so far as the supply of food would let them—and this is how it was at first regarded by

Malthus himself—the outlook would be terrible indeed.”

“That seems very plain to me,” said Buckley. “Don’t you see it, Istinn?”

“No, I don’t. If no instance of this law ever takes place, where does Mr. Leigh or any other economist get his evidence of it?”

“Mr. Buckley would not ask that question,” said Leigh, “for he has, during a large portion of a long and active life, been teaching physical laws which are not reached by specific experience. All heavy bodies within a certain distance of the earth tend to fall to the earth’s centre; but, if we know this, it is not because we have ever observed that any body has ever done so. The earth tends, at each moment of its yearly cycle, to fall into the sun. I need scarcely say that we did not learn that by our planet having done so. The earth is also constantly tending to move at a tangent to its orbit. It never does so; and our knowledge on the point could not, therefore, have been obtained by direct observation of this tendency. As I have already said, the First Law of Motion is an example of the same kind of generalisation. Bodies in motion, within our knowledge, do *not* persistently move with undiminished and unaccelerated velocity in a straight line; but every change in the direction and velocity of their motion can be accounted for by counter-acting causes—‘checks’ if you like to call them so. That is the crucial point. In this way the tendency to perpetual, steady, rectilinear motion of a moving

body is established as a residual law, by the abstraction of the effects of the modifying causes. The Law of Population is demonstrated in the same way."

"This is taking the matter very much out of the reach of the ordinary man," said Istinn, "but I should like to hear how you prove the Law of Population in that way."

"The ordinary man must be taught that his tittle-tattle on economics is of no more worth than his tittle-tattle on glossology, astronomy, or jurisprudence. The Law of Population, as I have said, is that human beings tend to multiply beyond the actual means of subsistence. This law is true with regard, not to man only, but to the whole animal world. As Darwin says:—'*A struggle for existence inevitably follows from the high rate at which all organic beings tend to increase.* Every being which, during its natural lifetime, produces several eggs or seeds, must suffer destruction during some period of its life, and during some season or occasional year; otherwise, on the principle of geometrical increase, its numbers would quickly become so inordinately great that no country could support the product. Hence, as more individuals are produced than can possibly survive, there must, in every case, be a struggle for existence, either one individual with another of the same species, or with the individuals of distinct species, or with the physical conditions of life. It is the doctrine of Malthus applied with manifold force to the whole

animal and vegetable kingdom; for, in this case'—that is, in the case of what we would call the lower organisms—'there can be *no artificial increase of food and no prudential restraint in marriage.*'"*

"But this only applies to the brute creation."

"It applies to man, too, with the difference—pointed out by Darwin—that man can artificially increase his means of subsistence and can take thought of parental responsibility. I am, however, not concerned with it now in its most extended, biological aspect, but in its human and economic aspect. I shall therefore ask you to start, not with the marvellous results of the fecundity of the lower organisms, but with the comparatively low fertility of man. Now, taking a very moderate estimate of human fecundity—one, indeed, which is much below the reality—we may say that man tends to double in number at each generation. Bear in mind that this is not intended to be a statement of the *actual* increase at any time, but merely what would result from abstract human fecundity in the absence of all counteracting causes. If you take into consideration that a woman's child-bearing years are about thirty, I think you will see that—were all obstacles removed—she would (taking one woman with another, and allowing for cases of infertility) at least bear a sufficient number of children to double in number the representatives of her husband and herself in the next generation.

* *Origin of Species*, p. 50.—The italics are mine.—J. H. L.

This is really an understatement. Let us, however, take it at that. What would be the result of this tendency? Starting from a single human couple, and doubling at each generation, the hundredth generation would number 1,267,650,600,228,229,401,496,703,205,376 persons. In order to bring this number more within the range of our conception, Sir John Herschell calculated that, reckoning for each of these persons an average space of four feet high and one foot square, they 'would form a vertical column, having for its base the whole surface of the earth and sea, spread out into a plane, and for its height, 3,674 times the sun's distance from the earth.'"

"What is the use of such calculations?" asked Istinn. "Such a result could never happen."

"Of course not," said Leigh, "but those who, for this reason, attach no importance, or small importance, to these figures, simply show that they have not learned the method of the concrete deductive sciences. The force which is measured by these figures, and is indeed understated by them, enormous as they are, is at every moment of mankind's history exerted to the full. It is producing its quantum of effect, which is no more nullified by intermixture with other effects than the law of gravitation is nullified by the ascent of a rocket or the flight of a cannon-ball. But that effect cannot be seen in isolation by the naked eye of common sense. It gets mixed with the effects of other causes, and the telescope of analytical science is

needed to resolve the nebula of every-day experience into the separate stars of which it is made up. Just as the tendency formulated by the First Law of Motion cannot become an actuality because of the distribution of matter and the Law of Gravitation, so the tendency formulated by the Law of Population cannot become an actuality because men cannot live without food, and indeed I may say without a place whereon to put the soles of their feet. For this tendency of population to assume proportions which have to be measured in such units as the sun's distance from the earth, in order to make them even approximately conceivable, stands in marked contrast to man's home—a petty planet, two-thirds of whose surface is water, and a great part of the remainder unfit for human habitation.”

“Yes, that is all very fine,” said Istinn, “but we are a long way off from this earth being filled up as yet, and sufficient for the day is the evil thereof. When we find the world too small for us, there will be quite time enough to study the Law of Population in particular, and economics in general.”

“That is a natural objection,” replied Leigh, “and it is one which has often been made; but it involves a misunderstanding of the nature of the barrier to the increase of population. That barrier is not one which is not reached till all the void places of the earth have been filled up. The cardinal fact to be borne in mind in this respect is that land—using this term in its wide economic

sense—is not uniform in quality. Let us suppose that all the natural agents which make up the crust of the earth were arranged in order of productiveness—the most productive at one end, the least productive at the other. Men would naturally commence to work at the pole of maximum productiveness; but, as they increased in numbers, they would be driven to take less and less productive natural agents into use. As the human tide increased in volume, it would roll on towards the pole of sterility. Other things equal, the average produce per head would be less and less. Natural agents, as I have already implied, vary in productiveness. Of those within our reach at any given time, we tend to use the more productive, and to bring the less productive into use only when this is more advantageous than the application of further labour to the more productive.* After a comparatively early stage in the use of a natural agent—such as agricultural land—is reached, it is found that doubling the labour and waiting does not produce a double reward. The return to each successive dose of labour applied is less and less, till at last a point is reached at which the return is practically nothing. This is the cause of resort to inferior natural agents; and, as the tide of population swells, and the demand for food and other materials drawn from the land grows, worse and worse natural agents are brought into use, and the productiveness of the sacrifices made by man, *in*

* See the first of these *Economic Chats*.

so far as it depends on those natural agents, becomes less and less."

"Why do you say 'in so far as it depends on those natural agents?'" asked Buckley.

"Because it may happen, and has happened in recent years, that the gain through invention and discovery—including the bringing within our reach new and fertile regions—has more than compensated us for the loss through increase of population. But this does not mean that this loss is not a reality. If I were to lose my purse containing £10, and went home afterwards and found that I had been left a legacy of £20, I would be a net gainer of £10 on the two events; but it would be absurd to contend, because of this, that the loss of my purse was no misfortune. A large part of the enormous economic advantages which would naturally have accrued during the present century has been used up—and, in the absence of widespread parental prudence, always will be used up—in merely counteracting the results of increase of population. The latter has had its full effect, though that effect is not seen in the concrete."

"A nice pickle we should be in," said Istinn, "if we had not been as numerous as we are, in the face of the hostility of the French, Germans, Russians, and the rest!"

"That is no answer to my contention. Let us suppose that our present numbers are needed in order to maintain our national existence against foreign foes. If this be so, we may be obliged

to accept the disadvantage which a rapid increase involves; but it in no way shows that such rapid increase does not involve a disadvantage. Moreover, if all the children who died before the age of puberty because of the poverty of their parents had not been brought into existence, the next generation would have been as numerous, and the nation would be no weaker through not having to keep these ineffectives. But I am really not concerned with these practical applications of the theory I have endeavoured to expound. It is agreed between Buckley and me that we shall restrict our conversations to economics."

"Is there no kind of economic set-off to the Law of Population?" asked Buckley.

"Yes; there is one kind of gain which may properly be put against the loss through growth of population—the advantage given by density of population in the division of labour. But the advantage thus to be obtained grows less and less. The most important benefits to be obtained by the division of labour are acquired at an early stage; and, moreover, facility of transport, by making distant markets accessible, has shorn density of population of very much of the good it could in this way produce."

"What about Socialism, and Teetotalism, and Vegetarianism?" said Buckley.

"The notion," said Leigh, "that you can provide for the unchecked increase of population by a redistribution of wealth or changes in food appears

to me utterly chimerical. Those who propose to do anything of this kind have utterly failed to realise the meaning of the figures which I have placed before you. Let me take an extreme supposition. A French chemist has lately expressed the opinion that we shall soon be independent of animal and vegetable food. The artificial production of compounds hitherto supposed to be producible by organic processes alone will, he thinks, soon have attained such a height that we shall be able to make our food direct from the mineral world. Let us suppose this done, that it has also been discovered how to transmute the various elements which are useless as food in those which form its main constituents, and that, in this way, the whole earth could be turned into food. I maintain that, even on this hypothesis, the barrier would merely have been put back—not removed, and that we would not have provided for the unchecked growth of population. Population *must* be checked. We have no choice in this matter. But we have an option as between the checks. These may be classified as the death-producing, and the birth-restricting. Nature has given us a reproductive power far in excess of the possibility of life, and still more of happy life, to our offspring. Shall we bring children into existence, and let them be cut down in numbers to the possibilities of life? Or shall we use our foresight to prevent this struggle, by limiting our parental responsibilities so that our offspring may have the chance of a happy life?

This is the alternative which lies before us; and it is one of the most momentous, for good or for evil, which the circumstances of our life on earth have placed before the human race."

III.—INTEREST.*

"I WISH you would say a few words, Leigh, in explanation of the problem of interest."

"With all my heart; but what problem of interest is it which you wish me to solve for you?"

"Well, what is the justification of interest?"

"I cannot say."

"Eh!"

"Did we not agree that these conversations should be restricted to economics?"

"Yes."

"Well, economics has nothing to do with questions of justification."

"The bitterest enemies of that so-called science never said a more damaging thing against it."

"I quite agree with you; but they are not very sensible people; and, when they butt against economics, I am very sorry for—well, not for economics. I am speaking to you as an economist, and as an economist I am not concerned with questions of right and wrong."

"Then you push aside questions of ethics?"

* The theory of interest here put forward was first stated by me in a paper read before the Zetetical Society on 22nd February, 1882.

"When solving economic problems—yes, just as you would ignore the moral aspects of a mathematical or a chemical problem. I turn up Todhunter's Algebra and find this question: 'A gentleman sends a lad into the market to buy a shilling's worth of oranges. The lad having eaten a couple, the gentleman pays at the rate of a penny for fifteen more than the market price; how many did the gentleman get for his shilling?' Now if, instead of solving this equation, you were to launch out into a denunciation of the wickedness of the boy, I am afraid you would have small chance of becoming a Senior Wrangler. If this question were put to you in an examination paper, you would not occupy your thoughts and waste your time on this urchin's lapse in morals, which you would rightly regard as irrelevant, but would proceed to calculate the arithmetical consequences of his act; and if anybody were to base on this neglect of moral considerations a denunciation of mathematics, you would probably consider a smile a sufficient answer. But when you come to economics, you neglect this isolation of the phenomena with which you have to deal—the primary condition of scientific treatment; and the result is endless confusion."

"Then what do you hold to be the economic problem of interest?"

"There are several; but the one which lies nearest to the ethical problem of the justification or condemnation of interest is that of its existence. How does interest arise?"

"Well, how does it?"

"The problem resolves itself into this: How comes it that a given quantity of wealth to be received at some future time is worth less than the same quantity of wealth to be received at an earlier time or actually in hand? The difference in value between these two is interest. It is a difference dependent on time only, and if time in economics were a factor which might be neglected, there would be no such thing as interest."

"Do you mean to say that when I pay interest on a loan I pay for time only?"

"The so-called interest you pay on a loan consists in part of payment to your creditor for risk that he will not be repaid, in part of remuneration for his trouble in negotiating the business, keeping a record, etc. Excluding these, which are really insurance and wages, not interest, the amount you pay is for time only; but it is not for time in the abstract. It is for time in connection with the use, or at least the possession, of a definite quantity of wealth. The Proudhon school may denounce time as an abstraction, or as a subjective form of thought, to their hearts' content. They could just as well denounce as abstractions, colour, weight, and every other attribute of material wealth. These *are* abstractions when considered apart from the things of which they are attributes. And it is the same with time. As a generalisation of our ideas of sequence, or as a form of thought, the economist is not concerned with it. But with time as a condi-

tion of the production and ownership of wealth he is very much concerned."

"I suppose, Leigh, this is because it becomes a concrete and practical matter?"

"Yes, from the point of view of economics."

"Then I wish you would put it for me in the form of a concrete example."

"Certainly. You, Buckley, are over three score and ten years old. Now suppose some good friend were to leave you £5,000; it would make all the difference to you whether this amount could be obtained on demand or was given to you in the form of a reversion which would 'fall in,' as the phrase goes, thirty years hence."

"Ah! It would be very little use to me thirty years hence."

"And still the difference would be one of time only. Now, in the earliest stages of man's existence there was no demand for deferred consumption. Men took no thought for the morrow. They lived, as the phrase is, from hand to mouth; and it probably took a considerable time, reckoning even in the large units in which we reckon man's life on earth, before sufficient advance was made to provide for tiding over the barren and inclement season of the year. Before this stage in human development was reached, the yearly deluge swept off men, and women, and children in their thousands. At last the wisdom of saving for the winter was recognised; and, from that time, man has made constant progress in providing for future consump-

tion. Indirect methods of production have been found more productive than direct ones ; and there is a constantly increasing demand for capital—that is, for produce which is devoted, not to the direct satisfaction of human desires, but to the production of further wealth. Again, men take thought not only for the winter of the year, but for the winter of their lives—when the snows of advancing age are on their brows and the rays of life's sun become feebler and feebler. Men look even farther than that. They save for consumption which is to take place after their life's sands have run out. It is not my purpose to speak of this as a moral fact. I note it solely as an economic one. The whole object of what I am now saying to you is this—to point out that with man's advance in the scale of being—his advance in intelligence, in wisdom, in knowledge, in sympathy—there is a constantly increasing demand for deferred consumption."

"Yes ; I see that. The more people we can get to live prudent lives, the greater will be that demand."

"You are quite right, Buckley. But now I am going to make a hypothetical statement on that point. Suppose there is a demand for future consumption rising from nothing to something very great. Suppose there is a demand for present consumption, over and above what certain persons can satisfy from their own property, relatively very great almost from the first, but growing propor-

tionally small as time goes on. Now these two suppositions, I believe, represent the truth on this subject; and what results from them? In the early stages, the surplus demand for present consumption being relatively great, those who wish their neighbours to forego this gratification will have to offer a comparatively large inducement. But as first the willingness and then the desire to put off consumption grows, the necessity for this inducement becomes less and less. The competition of those who wish to borrow becomes more and more evenly balanced by the competition of those who desire to lend. Interest falls; and if, as I believe, the demand for deferred consumption will at last outstrip that for anticipated consumption, we may look forward to a time when interest will not merely disappear, but when it will become negative."

"Isn't this very speculative?"

"Not more so than many other scientific truths. We ought not to forget that our conclusion is partly based on a contingent premiss. But, so long as we bear this in mind, we are quite safe. Our first statement is that Interest exists only because the demand for anticipated consumption exceeds that for deferred consumption. This, at least, is categorically true. Our next statement is that the demand for deferred consumption tends to increase faster than that for anticipated consumption. This is only conditionally true. It is based on the assumption that men will, more and more, learn to compete

only on the basis of a peaceful industrialism, and to eschew the wasteful and brutal competition of militarism. Just so far as this is true will it be true that Interest is evanescent."

"I think I see that now, Leigh; but may I go back to another part of your statement? You analysed the so-called interest paid on a loan into Interest proper, insurance, and wages. Has this any bearing on the money-lending question?"

"It has. Persons measure the charges of a money-lender as a rate per annum. Now this is an accurate method of estimating only one of the three elements of which those charges are made up. The mere price of the loan, apart from risk and trouble, is a quantity of two dimensions—amount and time. But risk does not vary directly with time; and trouble does not vary directly with either amount or time. It may be practically as perilous to lend for a month as for a year; and the trouble caused by a loan of £1,000 may be very little, if any, greater than that involved in a loan of £500. A rate per cent. per annum is, therefore, a delusive measure of the remuneration of a money-lender."

IV.—WHAT IS A POUND?

“WHEN I was a young man, Leigh, there was much talk about Sir Robert Peel’s question—What is a Pound? I could never understand what all the fuss was about. Surely everybody knows what a pound is.”

“Do you?”

“Yes; I think so. If anybody put Peel’s question to me, this is what I should do,” said Buckley; and he took a sovereign out of his purse and showed it to his friend.

“If anybody asked you—What is chalk?—would you consider you had answered him by showing him a piece? A billiard-marker might do that; but you would not. You would explain its chemical composition and its geological formation. But when a similar question is put with regard to the British standard coin, you reply like the billiard-marker. All of which proves that you are a chemist and a geologist, but not an economist.”

“Well, how would you answer the question?”

“Let me first say a few words on the history of the pound sterling. The pound, by weight, of silver (*livre*), is said to have been introduced as a monetary standard by Charlemagne, who divided it into *sols* and *deniers*: hence our £ s. d. From the Continent, these silver pennies (*deniers*) were brought into this country by the merchants of the lands near the Elbe, then called Eastphalia. These

traders 'were known in England by the name of Easterlings; and, their money being of the purest quality, *easterling*, in Latin *esterlingus*, shortened to sterling, became the name of pure or sterling money.* The monetary pound, in the time of our Norman kings, was a pound of silver,† and the pennyweight was the weight of a silver penny."

"Then private merchants supplied money!" said Buckley.

"Certainly; but this did not last. The manufacture of money was taken up as one of the functions of government; and so ingrained has become the habit of looking to the State for the provision of money, that, notwithstanding the constant failings and frauds of governments in this matter, and the constant intrigues of political parties to manipulate the currency for some sectional interest, a man who—like Herbert Spencer or the late Walter Bagehot—expresses any doubt as to the wisdom of the State interfering in this matter, is looked upon almost as a madman. When once a State monopoly has been set up, the very possibility of a different condition of things becomes more and more difficult to conceive."

"But our Government did not debase the coinage," said Buckley.

"You are mistaken," said Leigh. "Henry VIII. was an especial sinner in this respect. The pound of silver was progressively coined into a larger and

* Max Müller's *Chips from a German Workshop*, Vol. iii., p. 123.

† The Tower pound, 5,400 grains, up to 18 Henry VIII. (1527); the pound Troy since.

larger number of shillings,* till, at the commencement of the seventeenth century, the number had risen from twenty to sixty-two: the *money* pound consisting of twenty shillings throughout these changes. But it must be borne in mind that the pound, as a weight, changed from 5,400 to 5,760 grains. Allowing for this, the simplest way of putting the matter is to say that the same weight of silver which, at the Conquest, was coined into £1, was coined, in the 17th century, into £2 18s. 1½d. Perhaps it may be as well to caution you that the shilling as a coin was first struck in 1504; before that it was only what is called 'money of account,' and was represented by twelve pennies."

"Is a pound Troy of silver still coined into sixty-two shillings?"

"No; the shilling continued at that weight till 1816, when it was still further reduced, on the recommendation of the celebrated Lord Liverpool, by sixty-six being coined from a pound of silver. But this last reduction in weight of the silver coin stands on quite a different footing from the preceding ones; for, simultaneously with the lessening of the quantity of metal used in the fabrication of the shilling, it was deposed from its position as standard money. The Act of 1816 (56 Geo. III., ch. 58) established our present gold standard in England, and declared silver coin legal tender up to 40s. only. The metallic value of our present

* Excepting two fluctuations in the reigns of Edward VI. and Mary respectively.

shillings, which contain slightly more than $87\frac{1}{4}$ grains of silver,* thirty-seven fortieths fine, is a little more than 4d. at the present price of silver—1s. 11d. per ounce.”

“This is all very puzzling, Leigh. You have told me what the pound was, and how it was gradually depreciated, till at last it was deposed. But what is a pound now?”

“It is a piece of gold, stamped by government authority, and guaranteed to be eleven-twelfths fine and rather more than 123 grains in weight.† The British Mint coins an ounce of gold, 22 carats fine, into $\pounds 3\frac{1}{10}\frac{3}{10}$, = $\pounds 3$ 17s. 10½d., which is thus said to be ‘the Mint price’ of gold per ounce. As the minting of standard coin has been gratuitous since 1666 (18 Charles II., ch. 5), anyone may send to the Mint 160 ounces of standard gold, and get it made up without cost into 623 sovereigns: or, if he prefers not to wait for the process of coining, which takes about three weeks, he may get 622 sovereigns at once, for his gold, from the Bank of England. The Bank is compelled to make this purchase of standard gold, at $\pounds 3$ 17s. 9d. per ounce, under the fourth section of the Bank Charter Act

* The exact weight of the shilling is supposed to be $87\cdot27272$ grains; but coins cannot be made so exact in weight as this implies, and the “remedy” as it is called—that is the amount of divergence from this norm which is allowed to the Mint—is slightly over a third of a grain,

† The exact weight is defined as $123\cdot27447$ grains; but this, like the weight of the shilling, is a “counsel of perfection.” In practice, the Mint issues sovereigns varying in weight from $123\cdot074$ grains to $123\cdot474$ grains, the range of difference being two-fifths of a grain.

of 1844. The difference of $1\frac{1}{2}$ d. per ounce in the Mint price and the Bank price of gold is the payment for the three weeks' waiting for the process of coining."

"Then the value of gold is fixed by law? Does not this seem to give countenance to the contention of the Bimetallists that the value of silver should also be fixed by law?"

"No. The fixing of the Mint price of standard gold determines the *weight* of the sovereign, not its *value*. All that it decides is, that the weight of a sovereign shall be the same fraction of 480 grains as £1 is of £3 17s. 10½d. This is, of course, a constant quantity. But its invariability does not mean that the value of gold is invariable. That is constantly changing. It varies with every variation in the value of other commodities. How can the purchasing power of gold over other commodities remain unaltered, while the purchasing power of those other commodities is in a state of perpetual flux? As well expect one end of a see-saw to remain stationary while the other is going up and down. Some persons confuse the *price* of gold (the quantity of money for which it will exchange) with the *value* of gold (the quantity of wealth in general for which it will exchange); and, because the former—a purely quantitative relation—is fixed, they infer that the latter—an economic relation dependent on fluctuating economic causes—is fixed also. It is easy to account for their falling into this fallacy. The values of all other forms of

wealth are commonly reckoned by their prices; and when these prices do not vary, the values of the goods are said to remain unchanged. If wheat were 40s. per quarter yesterday and the same price to-day, we would say that its value was unaltered; just as we would say that a person had not grown within the last twelve months if his present height were the same multiple of my foot rule as it was a year ago. In the one case as in the other, the invariability of the standard of measurement is assumed. But suppose this were the very matter in discussion. To appeal to the standard itself, under such circumstances, would be an absurd begging of the question. If the person we have supposed to be measured were to assert that my foot rule had shrunk, this would not be disposed of by pointing to the divisions on it, and calling attention to the fact that the number of inch spaces on it was twelve, as it always had been. But this is exactly what those do who appeal to the Mint price of gold as proof that gold is fixed in value by Act of Parliament. They measure the value of gold by gold; and, because the relative value of $123\frac{1}{4}$ grains and 480 grains is unaltered, they come to the conclusion that the value of gold is 'stablished that it cannot be moved.' The price of an ounce of gold in sovereigns means the number of pieces of gold $123\frac{1}{4}$ grains in weight, which is equivalent to another piece of gold 480 grains in weight. This relation is purely arithmetical and constant. No power on earth could modify it. No variation in

the value of gold would affect it. Were someone to find out a method by which iron ore could be reduced to gold with the same facility as it is now reduced to iron, gold would be enormously depreciated in value, but its Mint price would be absolutely untouched by this revolution.'

"You have given me a terrible dose this time, Leigh, and have made no allowance for the fact that my digestion is not what it used to be; but I think I can see that it is all right. But you have not said much about the Bimetallists."

"Well, I do not want to discuss Bimetallism to-day; but you are quite right in your notion that some of the most prominent of its advocates have asserted that the value of gold is fixed by the Mint price. M. Emile de Laveleye, late Professor of Political Economy at the University of Liège, in an article in advocacy of Bimetallism,* said that money in England 'has a value fixed by the Mint, which remains invariable. Gold is always £3 17s. 10d. per ounce.' And M. Henri Cernuschi, who may be regarded as the chief apostle of Bimetallism, went farther than this. He contended that no money—including in this an inconvertible paper currency—is ever depreciated. 'Whether good or bad,' he said,† 'no money is ever, in its own country, below par. The gold sovereign, the silver rupee, the bimetallic franc, the assignat, the green-back, the paper rouble, have always maintained their

* *Fortnightly Review*, July, 1881.

† *Bimetallism in England and Abroad*, p. 30.

nominal value. This is because all money, whether metallic or not, is necessarily forced currency. Everybody must receive it without demur, and without discount. If two moneys coexist, one metallic and one paper, the metallic may be at a premium above par. The gold guinea was at a premium by the side of the paper pound sterling, always at par. So with the gold dollar by the side of the inconvertible greenback, always at par. What of gold money and silver money circulating together? The rule is the same. Neither the gold francs nor the silver francs were ever below par; but it sometimes happened that the one or the other was at a premium."

"Ah! that is a convenient way of settling the matter."

"Very convenient indeed; for in the same way it can be proved that nothing has ever fallen in value. When the exchange ratio of two moneys has varied, M. Cernuschi takes the value of that which has fallen relatively to the other as par; and, by thus measuring it by itself, proves, to his own satisfaction and that of some not very wise people, that it has remained immovable. I am not concerned with this as an argument for Bimetallism; but the statements of Messrs. de Laveleye and Cernuschi will illustrate for you the errors of those who think that the value of money depends on the mere arbitrary will of governments.

"There is one more question I have to ask you, Leigh; and then I will let you off for this time. I

think you have assumed that the value of the sovereign and its bullion value are identical. Is this true? Does not the process of manufacture into coin raise the value of the gold?"

"No; it does not. It is done for nothing; and what can be had for nothing fetches nothing in the market. Any person can send any quantity of gold into the Mint and get it worked up into sovereigns free of cost, so that the coining in itself does not raise the value of the gold; but, as I have explained, persons have to wait about three weeks for this coining process to be accomplished, or to pay the Bank of England $1\frac{1}{2}$ d. per ounce for so waiting, and therefore to this slight extent the sovereign may be more valuable than its bullion. I say 'may be' because the demand for bar gold may send up its price to any point between £3 17s. 9d. and £3 17s. 10½d. And now I think I have said enough for one occasion, on the question with which you started our conversation; and here I propose to leave it for the present."

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